★ MARKET MORE VULNERABLE THAN BUSINESS ★



# The MAGAZINE of WALL STREET
## and BUSINESS ANALYST

OCTOBER 8, 1960 85 CENTS

*The Threat to our Way of Life*
**in UNION'S MULTI-BILLION DOLLAR MIGHT**
By McLELLAN SMITH

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**HE HAZARDS and ADVANTAGES for .S. COMPANIES in FOREIGN LANDS**
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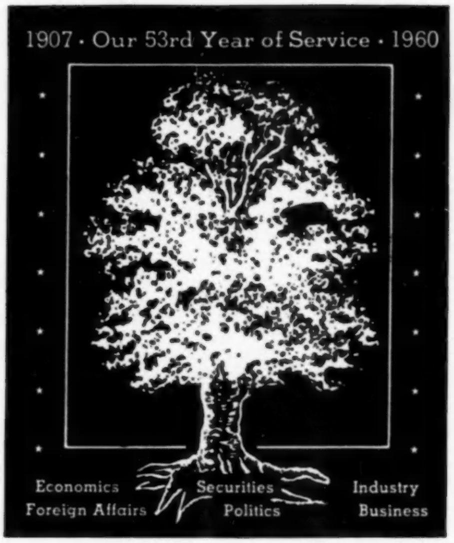
**THE MAGAZINE OF WALL STREET**

C. G. WYCKOFF, *Editor-Publisher*




# The Trend of Events

**THANK YOU NIKITA** . . . I want to thank you publicly for inviting the heads of the nations of the world to join you at the UN, so they could see for themselves the great city of New York and how the American form of democracy works in producing unequalled prosperity for its people.

I know you had intended these heads of state to witness your carefully planned, sensational propaganda coup over the United States, but, instead, you gave them a rather intimate picture of your antics and your reprehensible behavior, unbecoming the head of the great Soviet Union. Thus you yourself torpedoed your well-planned effort to strike the decisive punch that would lay the United States low.

For the first time too, these leaders, most of whom have visited the Soviet Union and seen the low state of your so-called "socialism," will now be in a position to compare the two economies, and will inevitably come to the conclusion that the United States government has actually achieved the dream of 19th Century socialist thought, and is today the greatest socialist state in the world—for it has realized the goals of the three tenets of socialist theory:

Tenet 1—"Freedom of the individual" compared with tyranny and slavery in your country.

Tenet 2—"Ownership of the tools of production" — has been realized in the United States also. Through the American way our people have an interest in the tools of production, with a partnership and share in the nation's wealth through stock ownership in our great industrial corporations—while the government of the Soviet Union owns and controls the entire economy—industrially—agriculturally—in every way, and the people of the country own nothing themselves, and are the slaves of bureaucracy.

Tenet 3—"An equitable distribution of wealth among the people"—as represented by per capita income. Through our form of government the people of the United States today have the largest per capita income of any country on earth—some $2,700 per year as of 1957, compared with about $150 a year in the Soviet Union.

On this evidence it is clear your claim that the Soviet Union is a socialist state has no basis in fact. Actually, as you well know, yours is a modern tyranny patterned on that of Ivan the Terrible, who, in recent years, you have extolled as the "great leader" who did so much toward developing the Russian State.

Thus, as you can see, there is no realism whatever in comparing our two economies, or the growth of your economy with that of the United States, as has been done too frequently, since your system is entirely lopsided compared with ours, lacking as it does the capacity to take care of the wants of

*We call the attention to the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.*

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 53rd Year of Service"* — 1960

your people—to supply them with consumer goods. In the main, your industrialization is geared to the production of armaments, which is waste pure and simple of raw materials and labor, and produces neither growth nor wealth. The same is true of your space program, which is merely an adventure in science—that is all.

Contrast this with our rounded economy, which includes a defense and space program, as well as an industrial complex which is geared first to serve the needs of our people.

Contrast this too with our program of social security for our people, which is a joint Federal, State and Municipal effort — in collaboration with Big Industries' pension, health and welfare programs — a record of responsibility that further exemplifies a socialist state.

Nikita, if you want to know why the government of the United States is different from all other democracies, then read Herbert Spencer's theory of revolution, in which he points out that all revolutions, including the Russian Revolution, were initiated by moderates and taken over later by the rabble. *And he especially calls attention to the fact that the revolution in the United States was the only one in which the moderates took over—and never lost control.* And it is that which accounts for the gradual evolution of our system into a Peoples Democracy, instead of a dictatorship like yours, controlled by rabble rousers pursuing personal power.

So far, every move you have made has been motivated by a lust for world conquest, at the expense of great suffering for your people, whom you have used merely as pawns in this game.

And yet you are not going to succeed. For, despite the high level of your showmanship, your true face has been exposed to the light of truth. This is nicely illustrated by a story now going the rounds, which tells how a Russian schoolboy, when asked to describe the United States, replied "It is a land of continuous unemployment, starvation, oppressive taxes and imperialist war-mongering." And in answer to the question "What are the goals of the Soviet Union?", quickly responded "To catch up with the United States."

So I would like to suggest that when you go home you turn over a new leaf and devote yourself to the interests of your people so you can go down in history as their savior—instead of a tyrannical Cossack who uses the *(Please turn to page 108)*

# As I See It!

By Jack Bame

## EXAGGERATED FEAR REGARDING CURRENT GOLD OUTFLOW

### — What has been done — and what can be done to correct imbalance

**OUR overall economic structure is *not*, by a long shot, so vulnerable and flimsy that the present drain on gold can, should or will cause a collapse of our dollar, financial panic and economic chaos! This is a rather blunt way to lead off a column such as this, but it needs to be said, and more often.**

Admittedly, the accelerated gold outflow *is* a cause for concern—but not for the desperate alarm expressed. At a time when the U.S. has reached such a position of real technological and industrial achievement and, to use the sometimes maligned term, has become affluent in so many respects, it is really hard to understand how the legitimate worries about gold and the dollar can be magnified all out of proportion to their relative importance among basic economic realities.

Why is this beginning to happen? What is the actual situation? What have we done to help correct imbalances? What is at stake? How are we to act in the future?

**FOREIGN ATTITUDES** . . . In brief, a basic difference exists between American and foreign patterns of thought relating to the international movements of gold and short term funds. This is easily understandable for a number of reasons:

► **1) many, if not all, of our overseas friends have been much more dependent upon foreign trade as a source of revenue, employment and production than we have;**

► **2) they have been subjected to more violent inflation and more frequent monetary devaluations than has the U.S.;**

► **3) many of these countries have a long standing tradition of equating gold with power and have only recently arrived at a point where production and productive potential are being fully realized;**

► **4) the basic economic strength and balance of payments positions of many of our foreign allies is still not so firm as to be able to withstand sudden unfavorable gold and capital movements without being forced to resort to devaluation or severe austerity programs.**

Therefore, international concern about the accelerated gold drain from the U.S. (over $700 million since the beginning of 1960, of which more than $330 million has been lost since mid-August), the emergence of a substantial premium in the dollar price of gold in London (as high as $35.26, compared with the official U.S. selling price of $35.0875), and the listing of the dollar at the lowest levels, within official fluctuating margins, vs. many European currencies, is explainable and rational.

***But* to project this concern into a panicky flight from the dollar would be both self-defeating for those involved and would show a misunderstanding of the U.S. economy, the latter more our fault, through a lack of presentation of our system to the world, than theirs.**

**THE ACTUAL SITUATION** . . . At present, a combination of events has helped to create the unfavorable impression of the dollar and the U.S. The economic picture now is, on balance, rather negative. Most widely accepted domestic statistical indicators are, or have been, pointed downward and the stock market is down. Even though our trade balance has improved markedly, our overall payments deficit is running at an annual rate of almost $3 billion; **our relatively low discount rate of 3%, compared with higher bank rates in leading overseas centers, has accentuated our gold losses for purely technical reasons; and the uncertainties of an election year do not make for any positive contributions to stability.**

Taking these leading factors step by step, these facts should be pointed out:

**Our internal cyclical ups and downs are undeniably linked to our basically free form of economic organization. Their effects, however, have been substantially lessened by our gradual accumulation of built-in automatic stabilizers, such as unemployment benefits, social security payments and insurance of bank deposits and mortgages, together with the attitude that government must take some action in times of economic decline.**

► **As a result, really serious depressions are no longer the same threat as they once were, and a great depression of the 1930's variety is not very likely to re-appear.**

● *Next*—the payments deficit *is* being reduced from the 1959 peak rate, as exports have been materially increasing. But more remains to be done—better productivity leading to lower costs, better quality, better selling and credit techniques, among other things.

● Tourist income can be increased substantially, with proper promotion.

● The burden of foreign aid and development expenditures must be shared more equitably by our West European allies and Japan.

● Further, the problem of disparate interest rates among countries intensifying the gold outflow.

● The August move of the Federal Reserve, reducing the discount rate to 3% to help stimulate business activity has resulted in no sign of an upswing in expenditures or borrowings and has accentuated the gold drain. These results make a further cut unlikely, although the possibility exists if short term interest rates on Treasury bills, etc., should drop sharply.

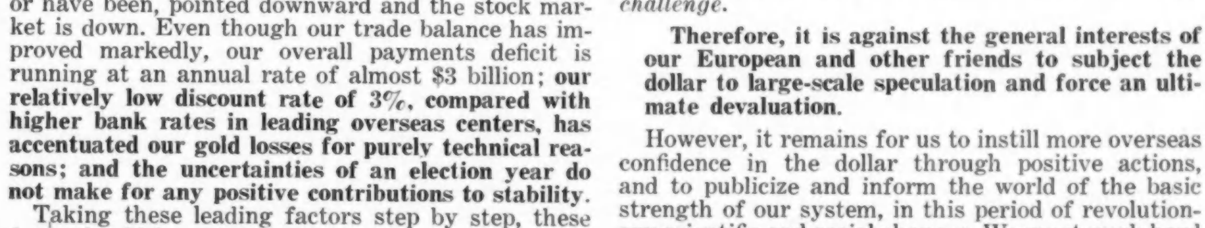
● Furthermore, the economic boom in Britain has shown signs of slowing down in pace, making a reduction of the bank rate there a distinct possibility in the very near future, a move which would help to cut down our gold losses.

### Can the Free World Afford to Drain Our Gold?

**THE EFFECTS** of any international run on the dollar would be detrimental to the entire free world, as an eventual devaluation would probably be decreed only after unwelcome and dangerous *cuts in foreign aid, after the institution of unhealthy trade restrictions,* and *after a period of monetary disorder which they simply cannot afford in the face of the Sino-Soviet challenge.*

**Therefore, it is against the general interests of our European and other friends to subject the dollar to large-scale speculation and force an ultimate devaluation.**

However, it remains for us to instill more overseas confidence in the dollar through positive actions, and to publicize and inform the world of the basic strength of our system, in this period of revolutionary scientific and social changes. We must work hard to improve our structure—and there is much room for improvement. If this is done, the dollar—and the U.S.—will occupy a premier position. END



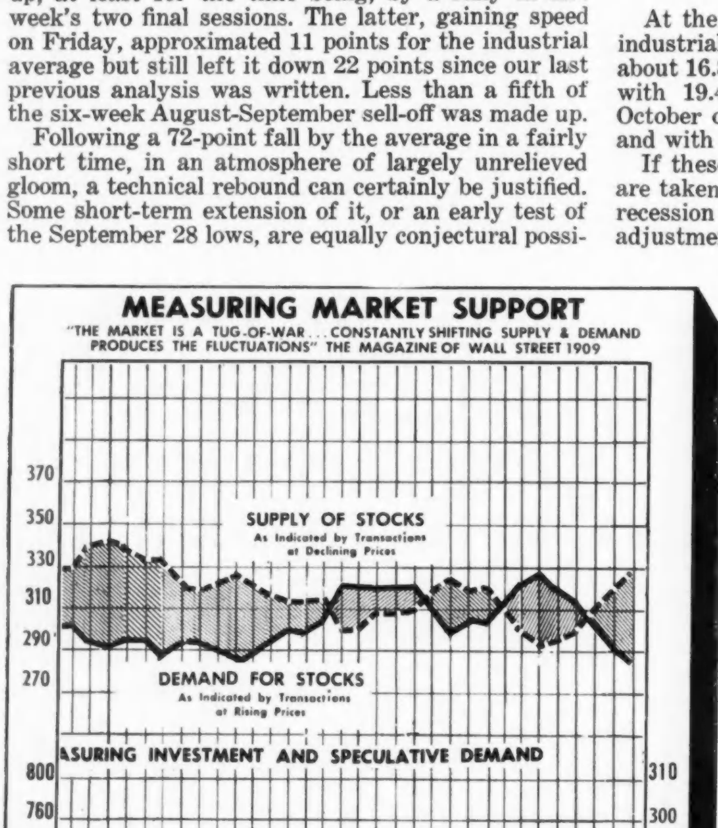
# Market More Vulnerable Than Business

**Ability of the market to make a firm stand, providing a base for a recovery swing of some scope, has yet to be demonstrated, despite development of a brisk rally late last week, since the rise in stocks has far outstripped business activity, and stimulus remains absent in the current buiness news. Emphasis on mounting cold-war tensions is a disturbing factor, too. A cautious policy is advised. Conserve buying reserves for later employment.**

### By A. T. MILLER

THE adjustment in stock prices was extended substantially over the past fortnight, even though a sizable amount of the damage was made up, at least for the time being, by a rally in last week's two final sessions. The latter, gaining speed on Friday, approximated 11 points for the industrial average but still left it down 22 points since our last previous analysis was written. Less than a fifth of the six-week August-September sell-off was made up.

Following a 72-point fall by the average in a fairly short time, in an atmosphere of largely unrelieved gloom, a technical rebound can certainly be justified. Some short-term extension of it, or an early test of the September 28 lows, are equally conjectural possibilities. Basis for a sustained market rise cannot in any event be cited at this stage.




#### Adjustment Well Advanced?

At the recent poorest closing level, the decline in industrials from last January's high amounted to about 16.8% in roughly nine months. That compares with 19.4% in little over three months in July-October of 1957, with 13% in nine months of 1953 and with 16.3% in twelve months of 1948-1949.

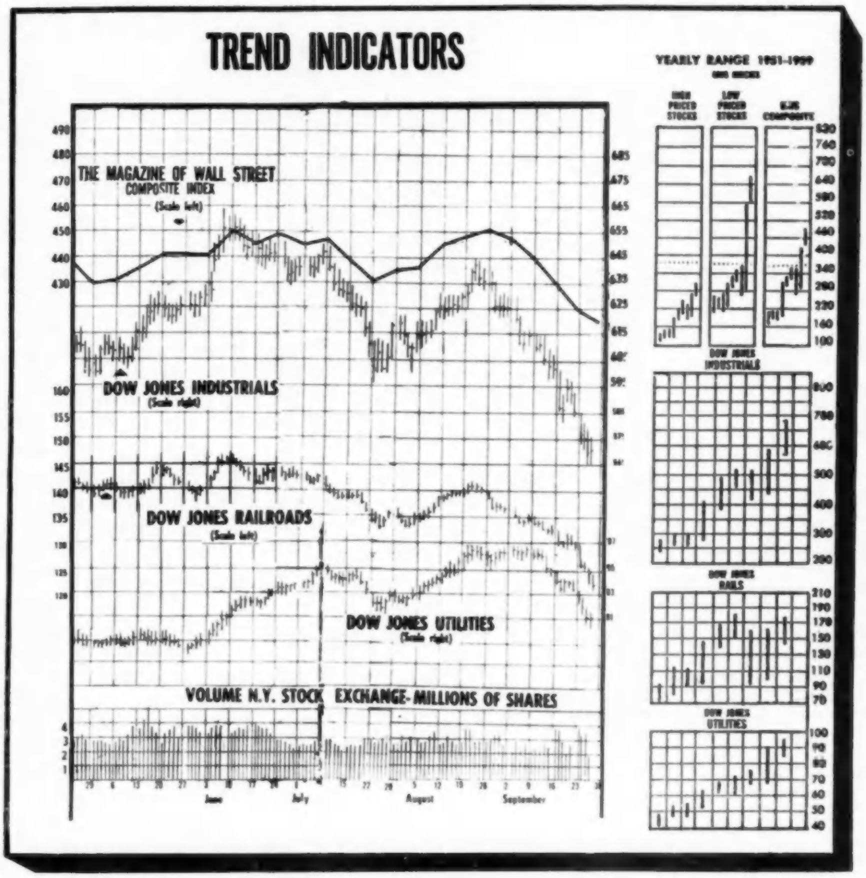
If these previous declines in the last decade or so are taken as a guide, and if the anticipated business recession is mild, it could be argued that the market adjustment is well advanced, even though completion of it remains in question. *In our view, the first "if" is more problematical than the second one — that is, the 1961 business outlook, while unpromising, appears far from seriously bad. But the market could be more vulnerable than business* — because stock prices of many leading issues anticipated boom conditions.

**In broad terms, stocks were undervalued in 1949, moderately valued for some time thereafter, but in recent years the market has run further and further ahead of company profits and dividends. The net effect was a progressive excess in price-earnings ratios. "Inflation sentiment" and optimistic hopes for the "golden 1960s" became a steadily increasing part of the story.**

Since excess in stock valuations at last January's top was greater than at earlier interim highs in the postwar period, it would take a proportionately wider decline to correct it. *Therefore, the fact that this sell-off has approached that of 1957, and exceeded the others cited, may not be too significant a guide as to its possible bottom.*

On average, price-earnings ratios are still much above the valuations considered prudent in the past — and above those that proved untenable at older market extremes. With commodity prices under pressure, industrial and trade profit margins generally narrowed, and behavior of cyclical stocks

poor for many months, "inflation sentiment" has been considerably watered down. Nobody can now say whether or to what extent it might be revived under policies of the new Administration.




With the crest of the latest postwar production cycle reached last January, and people now pre-occupied with threatening recession, the potentials of the "golden 1960s" are being viewed with more realism, than wishful thinking. It is being recognized, for example, that projected family formations do not suggest need for another housing boom starting much, if any, before the mid-1960s. Again, it is being recognized that the biggest population gains ahead will be in the non-productive age groups — in teenagers and babies supported by parents, many of whom must weigh costs of luxuries against necessities; and in older people, many without "affluent" means.

With inflation checked — the business profit picture uninspiring — confidence in the "golden 1960s" somewhat impaired — and foreign uncertainties gravely increased, — it may well be that we have heretofore seen the general peak in price-earnings ratios at least for some time to come.

Somewhat lower valuations — in addition to lower earnings in recession — cannot be ruled out. There is no basis for a market "crash". But there is a basis for gradual disillusionment among numerous relative newcomers in the market as they find it harder to make money in stocks and easier to lose it. And there is a basis too for a partial return to the older concept that common stocks are not the whole story of prudent investment.

It is argued, with some substance, that various stock groups have been under rolling adjustment — oil is one important example — have had their deflation, or the bulk of it, well ahead of the market, and that this sets limits to the general decline. But nobody can say what the limits are, since other stock groups are still "way up there" even though down to some extent.

It is argued that with most of the decline to date seen at the March low, and the recent further net extension of the latter only some 5%, increasing sub-surface market stability is indicated. But it could be argued the other way. The consensus in early March was that we had had a technical reaction in a bull market, and that the business outlook remained favorable. Since then there has been marked deterioration in business prospects, in profits comparisons and in the general urge to buy stocks. It seems questionable that the change has been adequately allowed for by a downside difference of 5% for the industrial average from its March low.

#### Supporting Factors In Business

The postwar recessions have been mild for reasons that need not be detailed here. The expected 1961 recession should be milder than that of 1957-1958 for the following three reasons:

(1) **We are not in an inventory boom.** Inventory accumulation has already fallen from an early-1960 annual rate over $12 billion, in the wake of the steel strike, to about zero. Inventories are moderate in relation to sales. Recession liquidation figures to be less than that of 1957-1958.

(2) **We are not in a capital goods boom.** There has been a cyclical recovery not quite back to the 1957 peak. Comfortable corporate finances and need for labor-saving efforts suggest less shrinkage of outlays in this instance than in 1957-58.

(3) **Federal spending** will rise more rapidly in 1961 than it did in 1958, with the comparison probably markedly on the supporting side as measured against a slow rise in the 1958 first half.

We have for some time advised a conservative, selective policy in portfolio management. It remains justified.—**Monday, October 3.**


# *The Threat to our Way of Life in* LABOR UNIONS' MULTI-BILLION DOLLAR MIGHT

By McLELLAN SMITH

► **On top of huge investment income — annual dues alone are close to $750 million — in addition there are standing assessments (paid by wage check-offs) for so-called strike benefits — the 1.2 million-member U.A.W. builds this fund at rate of about $17 million a year**

► **Where dues-paying union members rely mainly on Social Security System — and $34 billion fringe benefits paid by industry for aid, pensions, etc. . . . the cost of which is passed on to you, Mr. Average Citizen — in the prices you pay**

LABOR unions, because of lopsided federal legislation described here two weeks ago, have achieved political powers beyond average comprehension. And, largely on the basis of the same legislation, they have become financial powers of the first magnitude.

The National Labor Relations (Taft-Hartley) Act, which legalizes compulsory union membership through its so-called union shop clause, has given the labor barons an almost unlimited source of funds to carry out their political ends—which may spell either good or evil for the national economy. This may not constitute a "blank check" on the federal treasury, but it does represent something very close to a "sight draft" on the earnings of some 17 million workers, 30% of whom would probably abstain from union membership if they really possessed the basic rights of "life, liberty and the pursuit of happiness."

Labor was once an underdog. This situation has long since ended. Organized labor today is itself big business, controlling legal and financial power that can completely hamstring the nation's health, welfare and economy. It also possesses huge cash reserves which can be used to sway elections and influence the politicians upon whom it is dependent for its powerful prerogatives. This picture is shocking, but the presence of so many labor-biased laws in the federal statute books make it difficult to reach any other conclusion.

As the late Alfred E. Smith, Democratic nominee for the presidency in 1928, was fond of saying,

"Let's look at the record."

### Total Union Resources Appraised

The exact amount of cash and readily marketable securities belonging to labor unions cannot be precisely computed, but figures available from various public and private sources suggest that such assets range between fifteen and twenty billion dollars. This is very close to a quarter of the current fiscal year's National Budget of $79.8 billion. The exact total will not be known for a matter of two or three years until after the Labor Department's newly-created Bureau of Labor and Management Reports wades through and consolidates financial statements of around 55,000 reporting independent unions and the autonomous locals of the big internationals—United Steel Workers, United Automobile Workers, Teamsters, the Railway Brotherhoods, etc. Stressed here is the fact that the financial reports of the national and international headquarters units are not consolidations of the financial positions of their various locals, even though the parent unions do have iron-fisted control over assets of their respective locals. It is a defect of the Landrum-Griffin Act that consolidation of financial statements is not required.

**Careful selection of statements of key unions does indicate, however, that annual dues paid by 17.5 million rank-and-file union members come to the staggering total of nearly $750 million—and the figure is undoubtedly conservative because it does not include occasional special assessments for so-called strike benefits. Nor does the $750 million include political fund levies or income from government bonds, guilt-edge "capitalistic" securities, and vast rentals of office space in union-owned buildings to private business. Such rentals, by themselves, constitute one of labor's "big business" operations. In the nation's Capital alone, labor unions own more than two score office buildings, together with the land on which they stand, with market values in excess of a quarter-billion dollars.**

### Real Estate Concentration Serves a Double Purpose

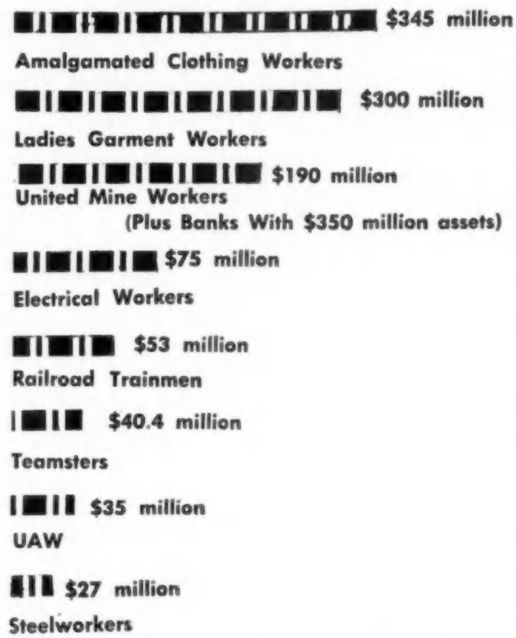
In Washington, building codes bar construction of skyscrapers whose heights would overshadow the Capitol, the White House and other national shrines. No restriction exists, however, on the number of buildings that may be erected or their strategic placement so as to cast shadows of influence on Congress and the federal agencies.

Labor has accordingly encircled the White House and the Halls of Congress with an imposing array of headquarters buildings of powerful unions. These emphasize the assertion of AFL-CIO President George Meany that: "*The scene of the battle is no longer the company plant or the picket line. It has moved into the legislative halls of Congress.*"

Omitted by Mr. Meany was the simple but factual statement that Labor's multi-million dollar investment in marble, structural steel and District of Columbia realty had the avowed purpose of impressing Congress and the Administration with the financial power of labor unions.

One cannot escape the almost inevitable conclusion that this exhibition of financial muscle, far removed from the scenes of collective bargaining operations, is a boldly designed plan of labor's moguls to paste union labels on the Capitol, the White House and federal agencies dealing directly with the national economy.

**ASSETS CONTROLLED BY SELECTED UNIONS**




*This chart of union-controlled assets adds up to $1,012.4 million, but is decidedly incomplete for the reason that it covers only eight of 108 national and international unions, many of which do not consolidate the financial strength of their locals and affiliates into a single balance sheet. The unions tabulated here represent about one-fourth the total union membership in the U. S.*

Labor has, in fact, gained heavily in this objective. The Congress has written laws that bow to its will; the executive branch of government has been reluctant to "stand up" to Labor's financial might; while the Supreme Court has long ago ruled in effect that labor is spotless—that only management sins.

### Labor's Use of "Educational" Funds

With millions of dues dollars pouring in through workings of the compulsory membership (union shop) provisions of the Taft-Hartley Act, the labor unions are in a financial position to "buy" any candidate for public office, municipal, state or Federal, despite the fact that the Corrupt Practices Act bars labor unions (as it does corporations) from making cash contributions to candidates or political parties. Clever union legal counsel has found the needed "loop-hole."

Union funds can be used for "educational" purposes, defined in the broadest sense, and provided the funds so used are voluntarily contributed. The giant AFL-CIO long ago formed its well-known Committee on Political Education (COPE) which received "voluntary" contributions of $1.00 each from individual members. The voluntariness depends entirely upon the pressure, or lack thereof, by shop stewards and other union officers at local levels. Some reluctance on the part of rank-and-file mem-

bership to give hearty support to union political activities is evidenced by the fact that such "voluntary" contributions seldom exceed $600,000 a year, out of a membership running into millions.

In addition to the AFL-CIO's COPE, many of the unions maintain their own educational committees or associations. But the big "gimmick" is the absence of any prohibition in the statute books against the voluntary voting by national officers, boards of directors or other governing bodies of the respective unions of funds from their national treasuries to their "educational committees."

One example only will be cited—and hundreds more like it are available in Capitol Hill Records. There was occasion to examine the sworn statement of campaign donations and expenditures of a Pennsylvania congressman with a firm pro-labor record. Although from a District with few unions and relatively small union membership *he still represented a pro-labor vote on the floor of the House.*

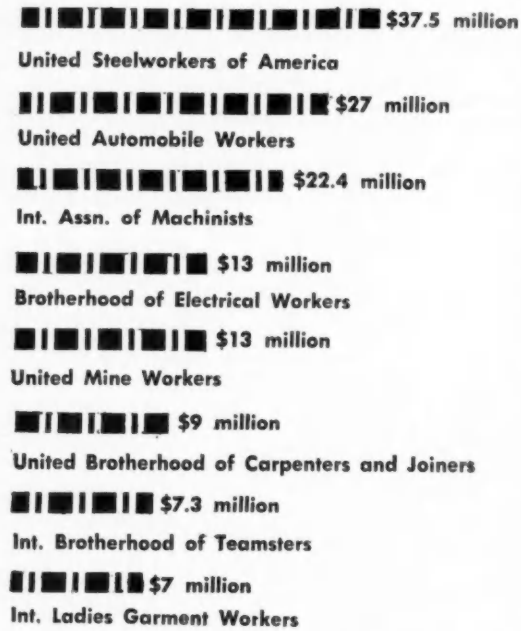
So what did Labor contribute to his campaign "kitty?" Of his total $5,700 campaign expenditures, all but $150 came from "educational committees" of unions, few of which had locals in his area of representation. The basic idea was to elect this particular congressman because he was a *friend* of labor. Machinists, Steelworkers, Garment Workers, AFL-CIO's COPE—all kicked in, although their membership in his district of around 435,000 population totaled less than 18,000! Now the reader has a thumb-nail sketch of how Labor works, in a word, "to elect our friends, defeat our enemies." Had the National Association of Manufacturers or the Chamber of Commerce of the United States—or any similar business group—made offsetting contributions to his opponent, Labor would have invoked the Corrupt Practices Act for prosecution and otherwise have called "foul"! Parenthetically, such prosecution probably would have been successful. And yet the labor contlributions described were entirely legal.

The COPE of AFL-CIO is active again this election year, publicly declaring that it expects around $600,000 in voluntary membership contributions. This amount would be aside from the millions of dollars it expects in the way of voluntary appropriations from the governing bodies of the major unions within the overall set-up. And they will be generous because $600,000 will not go very far in a campaign of national proportions.

The time and efforts of dozens upon dozens of research specialists and analysts would be required to feret out Labor's direct and indirect dollar contributions to their friendly candidates in the current election campaigns, but there is little doubt they will equal—perhaps even exceed—the expenditures of both National Committees. Two years ago, in the case of the Pennsylvania congressman just cited, Labor carried nearly the whole bill. This year they will repeat this feat over and over again.

**Income from Dues of Selected Unions**

*Exclusive of special funds and assessments and political funds, and income from local affiliates.*



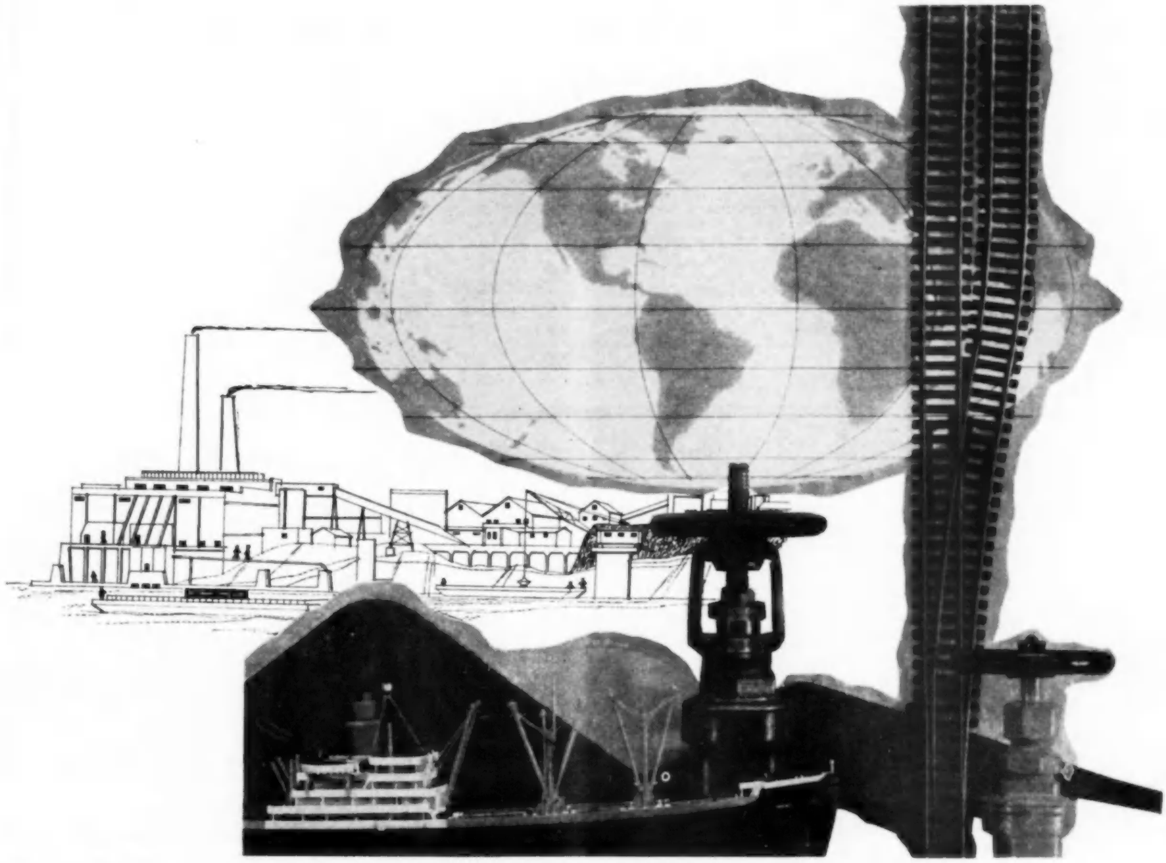

*Illustrating annual dues income, collected under compulsion, of only eight selected unions representing less than one-fourth the nation's labor union membership. Contrast this income with the combined $7.2 million dues income (all voluntary) of the Chamber of Commerce of the United States and the National Association of Manufacturers, prime "whipping boys" of organized labor's big-wigs.*

#### Source of Labor's Political Funds

And where does the money come from and in what amounts? The answer to the first is easy—it comes from dues and special assessments, levied under the provisions of the National Labor Relations Act. For the second part of the question we have to estimate but, as mentioned earlier, the overall annual total is close to $750 million.

Dues of the multitude of unions vary widely; they run from as low as $1.00 a month to as high as $360 a year, with portions (or all) going to general headquarters of the parent union. Some of the smaller nationals and internationals impose per capita payments as low as five cents a month, some exact nearly 50 percent of the local dues, while in a few instances *all* dues payments go into the coffers of the parent organization. Such is the case with the Air Line Pilots Association, which has a dues schedule of over $90 per quarter. A review of the dues schedules of around 175 unions, large and small, indicates an average monthly dues cost of $5.00, with anywhere from one per cent to all of it going into headquarters' treasuries.

Some of the unions, in addition to their regular monthly dues, also have standing assessments (paid by wage check-offs) for so-called strike benefit funds. The 1.2 million-member United Automobile Workers of America builds this fund at the rate of about $17 million a year. This money is nothing more nor less than "strike insurance." When business takes out similar insurance, however, organized labor condemns it as an "unfair labor practice" and a means of strike-breaking. Every competent business organization naturally takes out insurance against fire and other hazards of business, but no one yet has protested this *(Please turn to page 103)*



# THE HAZARDS and ADVANTAGES for U.S. COMPANIES in FOREIGN LANDS

By ROBERT B. SHAW

► Realism in investing abroad . . . the problems in various areas of the world where stability exists — where risks are high
► Threats of expropriation — retroactive taxes — employment — featherbedding — other considerations
► Matters of paramount interest to the business executive and investor today

"YES, we do have some special problems in this country," the manufacturing head of a large American machinery company's subsidiary operations in Great Britain told this writer recently. "Among the more difficult are the lack of reliable delivery service on the part of our suppliers, inferior quality of purchased subcomponents and the inexperience of labor."

In other parts of the world where civil wars, threats of confiscation and unfamiliar local customs represent more conspicuous difficulties, American business representatives might laugh at the mild character of the "problems" being encountered by their confrere in the United Kingdom. It must be remembered, nevertheless, that the problems that are most dramatic are not necessarily the most important. In any case, as the current rate of American investment is much bigger in western Europe than in any other comparable area, the obstacles and opportunities facing our new European plants being so rapidly opened up deserve further examination on the part of investors.

### Scope of American Investment Abroad

But first it will be valuable to place the rate and extent of American investment abroad in perspective. The Department of Commerce estimates the current total of United States private investment abroad at 29.7 billion dollars. This value has not grown constantly. During the depression era, 1929 to 1940, total direct foreign investment actually declined slightly, standing at $7.0 billion in the latter year. Any significant resumption of foreign investment was naturally blocked during the war, but

by 1950 this value had risen to $11.8 billions, notwithstanding that the immediate post-war years were characterized by heavy public rather than private spending abroad. Since 1950 foreign investment has continued at an accelerating pace.

In 1957, when total U.S. foreign investment in all areas reached $25.3 billion, Canada and the Latin American republics were running neck-and-neck as the favorite business locale, with U.S. investments of $8.3 billion (33%) and $8.8 billion (35%), respectively. What is more significant is that, during the preceding decade, Canada had advanced from a position considerably behind Latin America.

**Value of Total Direct U.S. Investments Abroad**

—In Billions of Dollars—

| | 1929 | 1940 | 1950 | 1955 | 1956 | 1957 | 1958 | 1959 |
|---|---|---|---|---|---|---|---|---|
| Manufacturing | 1.8 | 1.9 | 3.8 | 6.3 | 7.1 | 7.9 | 8.7 | 9.7 |
| Mining and Smelting | 1.2 | 0.8 | 1.1 | 2.2 | 2.4 | 2.6 | 2.6 | 2.9 |
| Petroleum | 1.1 | 1.3 | 3.4 | 5.9 | 7.3 | 9.0 | 9.8 | 10.4 |
| Transport, Communication, Utilities | 1.6 | 1.5 | 1.4 | 1.6 | 1.8 | 1.7 | 1.9[1] | 2.0[1] |
| Trade | 0.4 | 0.5 | 0.8 | 1.3 | 1.4 | 1.6 | 2.0 | 2.3 |
| Agricultural and Other | 1.4 | 1.0 | 1.3 | 2.0 | 2.2 | 2.4 | 2.3[1] | 2.4[1] |
| | 7.5 | 7.0 | 11.8 | 19.3 | 22.2 | 25.2 | 27.3 | 29.7 |
| Canada | 2.0 | 2.1 | 3.6 | 6.5 | 7.5 | 8.3 | 9.3 | 10.2 |
| Latin American Republics | 3.5 | 2.8 | 4.7 | 6.6 | 7.5 | 8.8 | 7.8 | 8.2 |
| Western Europe | 1.4 | 1.4 | 1.7 | 3.0 | 3.5 | 4.0 | 4.6 | 5.3 |
| Other Areas | 0.6 | 0.7 | 1.8 | 3.2 | 3.7 | 4.1 | 5.6 | 6.0 |
| | 7.5 | 7.0 | 11.8 | 19.3 | 22.2 | 25.2 | 27.3 | 29.7 |

[1]—Estimated.

It should also be remembered that, since Latin America is roughly twice the size of Canada and exceeds it by over ten times in population (155 millions vs. 14 millions), a similar absolute volume of investment in Canada betokens a far more intensive penetration by American capital. In 1959 Canada had moved further ahead, with $10.2 billions of U.S. investment, vs. $8.2 billions for Latin America.

Outside of this hemisphere private investment in Western Europe, as of 1959, amounted to $5.3 billion, or about 18% of the total. "Other countries," among which the oil-producing states of the Near East are most important, held American investments of $6.0 billions, or 20%.

### Most Rapid Rate of Investment Now in Western Europe

During the early years of the last decade U.S. foreign investment grew most rapidly in Canada, where new mineral and timber developments were of special interest to promoters on this side of the border. 1956 was the banner year, when net new investment in Canada failed only very narrowly to hit the $1 billion mark. Since then the annual rate of U.S. investment in Canada has slackened a little. This decline reflects two principal factors: the world-wide oil glut and the accession of the mildly anti-foreign Conservative government in our northern neighbor.

Simultaneously, the rate of American investment in Europe has picked up and now leads all of the other areas as defined above except Canada. Annual capital expenditures by American companies in Europe are now well in excess of one half billion dollars, and if the current trend continues the figure will approach one billion dollars annually within only a few years.

### Petroleum, Manufacturing Investments Grow Most Rapidly; Mining, Utilities Decline

Initially, American investment abroad was primarily in the extractive and agricultural industries, that is, in mines and plantations, in order to provide this country with essential raw materials. It is only within the present century that foreign countries were recognized as markets worth cultivating for their own sake; Great Britain and other European states were far ahead of us in this process. The first large-scale construction of physical plant, principally in the form of railroads and utilities, occurred in the '20's. The entry of American companies into manufacturing abroad on any significant scale is a very recent, and chiefly a post-war, development.

But American manufacturing investment abroad, if delayed in starting, has grown extremely rapidly in this post-war era. **In 1959, according to the Department of Commerce, such investment totalled $9.7 billion, 32.7% of aggregate private investment, and a huge four-fold increase since 1929.**

**During the same three decades mining and smelting merely doubled, to $2.9 billion (9.8% of the total); agricultural holdings increased about 50%; and transportation and utility properties remained almost unchanged. One form of extractive industry, petroleum, however, increased even more rapidly in foreign investment value than manufacturing, from a mere $1.1 billion in 1929 to $10.4 billion (35.0% of total foreign investment) in 1959.**

These generalized statistical measures will have practical application, either fortunate or unhappy, in the experience of most investors. Utility enterprises, like **American & Foreign Power** or **International Telephone,** have seen the scope of their foreign operations sharply reduced by nationalization and, to state the case mildly, investment opportunities of this character are now strictly limited.

U.S. mining and smelting properties abroad, represented by such companies as **American Smelting, Anaconda** and **Cerro de Pasco,** have generally remained intact, and have even been expanded, but are now of distinctly secondary importance to manufacturing. Farms and plantations have lagged even further behind, partly because of nationalization of such properties and partly because rubber, natural fibers and vegetable oils have been largely replaced by synthetics. **In brief, American investment abroad is no longer typified by extractive companies such as Firestone Rubber or United Fruit but rather by large manufacturing industries.**

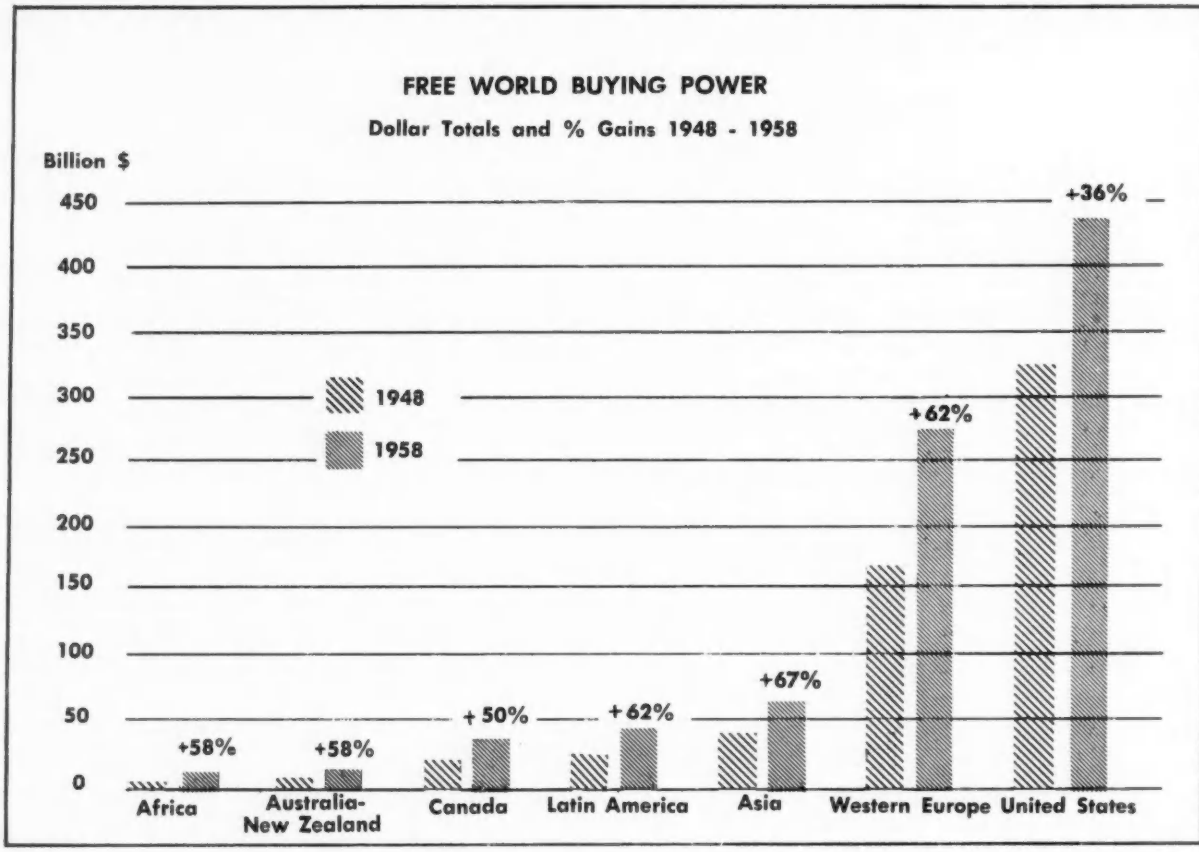
### Current Position of Petroleum

The oil industry represents a partial exception to the foregoing conclusion. Clearly in the extractive category, petroleum investment abroad has grown even more rapidly than general manufacturing in the last quarter century. Most of this development

## Foreign Operations of Representative American Companies

| | Approximate Proportion of Foreign Sales to Total Sales % | Approximate Proportion of Foreign Net Income to Total Net Income % | Recent Activity In Foreign Business |
|---|---|---|---|
| Caterpillar Tractor | 37% | (NA) | Sales of $274.4 million abroad in 1959 were 21% higher than 1958, and reached a new high level. Demand last year was stronger in Canada and Europe, but lower in South America. |
| Colgate-Palmolive Co. | 51 | 64 | Foreign sales of $296.4 million increased $33.7 million over 1958 and exceeded domestic sales for the first time. Foreign operations are carried on through 40 subsidiaries in Canada, Central and South America, Europe, South Africa and the Far East. |
| Corn Products | 30 | 32 | Corn Products are made in Western Europe and Lation America, and sold in all countries of the free world. The 1959 report has been prepared on a world-wide consolidation basis for the first time, showing sales of $676.3 million, a new high, compared with $649.9 million in 1958. |
| Joy Manufacturing | 30 | 25 | Combined sales of unconsolidated subsidiaries and exports from North American units amounted to $33 million compared with $36.2 million in 1958. This decline was due to lower British coal mining activity and currency devaluations in France and Peru. |
| National Cash Register | 38 | 48 | More than 100 countries contributed to 1959 foreign volume of $159.4 million, up 5% over previous year. Earnings from overseas were $12.2 million last year of which $9.3 million was remitted to parent company. |
| Pfizer (Chas.) & Co. | 45 | (NA) | Pfizer International in 1959 increased its sales, passing the $100 million mark and a 34% increase over 1958. The company now has plants in 20 countries. The company conducts its own operations in 40 countries. Well over half of consolidated earnings come from foreign operations. |
| Sears, Rocbuck & Co. | 7 | (NA) | Latin American subsidiaries operate 57 outlets, and jointly owned Simpson-Sears in Canada has 37 stores and 319 sales offices. Four units are in Central America. In fiscal 1959-60 the Australian subsidiary interest was sold, and a finance company was organized in Panama. Allstate Insurance Co., an affiliate, established subsidiaries in Switzerland and Mexico. |
| Singer Manufacturing Co. | 50 | (NA) | Company manufactures its products in 14 countries and sells them in 155. It maintains a network of 20.000 outlets of company-owned stores, dealers and distributors throughout the world. Almost half of total sales in 1959 originated abroad with increased volume in all areas except Latin America. Company's domestic operations subject to foreign competition in recent years. |
| Socony Mobil Oil | (NA) | 62 | In 1959 over 42% of earnings were derived from the Eastern Hemisphere and 20% of total net from other Western Hemisphere activities (mainly Venezuela). Besides 10% ownership in Aramco, 19% of Iraq and Iranian interests, Socony operates installations and sells petroleum products on a world-wide basis. |
| Standard Oil of New Jersey | (NA) | 66 | The company is a leading factor in the petroleum industry accounting for about one-eighth of estimated free world crude production. Net earnings from foreign operations total about two-thirds of Standard's net income. Return on net foreign assets total 16% as compared to 5% on domestic assets. Recently, operations were affected by tax increase in Venezuela and stepped-up activities in Libya. |
| Vick Chemical | 21 | (NA) | Manufacturing facilities in Japan, Brazil, Mexico and Western European countries. Foreign sales and earnings are consolidated but liberal reserves are charged for possible currency devaluation. |
| Woolworth, F. W. | (NA) | 41 | Company has 53% owned British, 97% German and 100%-owned. Mexican subsidiaries. "Foreign net income" indicated includes only dividends actually received from United Kingdom, Germany. Market value of British holding alone, $681 million at last year-end, is equivalent to $70 per share of U. S. company. |

(NA)—Not available.




has taken place, of course, in the Arab states of the Near East. The two biggest years for oil company expansion were 1956 and 1957, when net foreign investment increased by $1.4 billion and $1.7 billion respectively—either of these figures being larger than total foreign investment in petroleum as recently as 1940.

Since the Suez Crisis of 1957 which touched off the long persisting oil glut, foreign petroleum investment has slackened—but not nearly as much as an outsider might imagine. Apparently it has been impossible for the industry to retract its accustomed rate of exploration and drilling sharply, and important new fields have been opened in Libya and elsewhere by American firms even since marketing has become such a difficult problem. On the basis of estimates new petroleum investment abroad is continuing, in fact, at a rate in excess of $1 billion a year, and still exceeds manufacturing. Indications are, however, that this relationship will reverse within a year or two, when manufacturing outlays will take the lead.

### Motives for Building Factories Abroad

The extractive industries, obviously enough, have been established at foreign locations because that's where their raw materials are to be found. For general manufacturing location abroad is a more deliberative process.

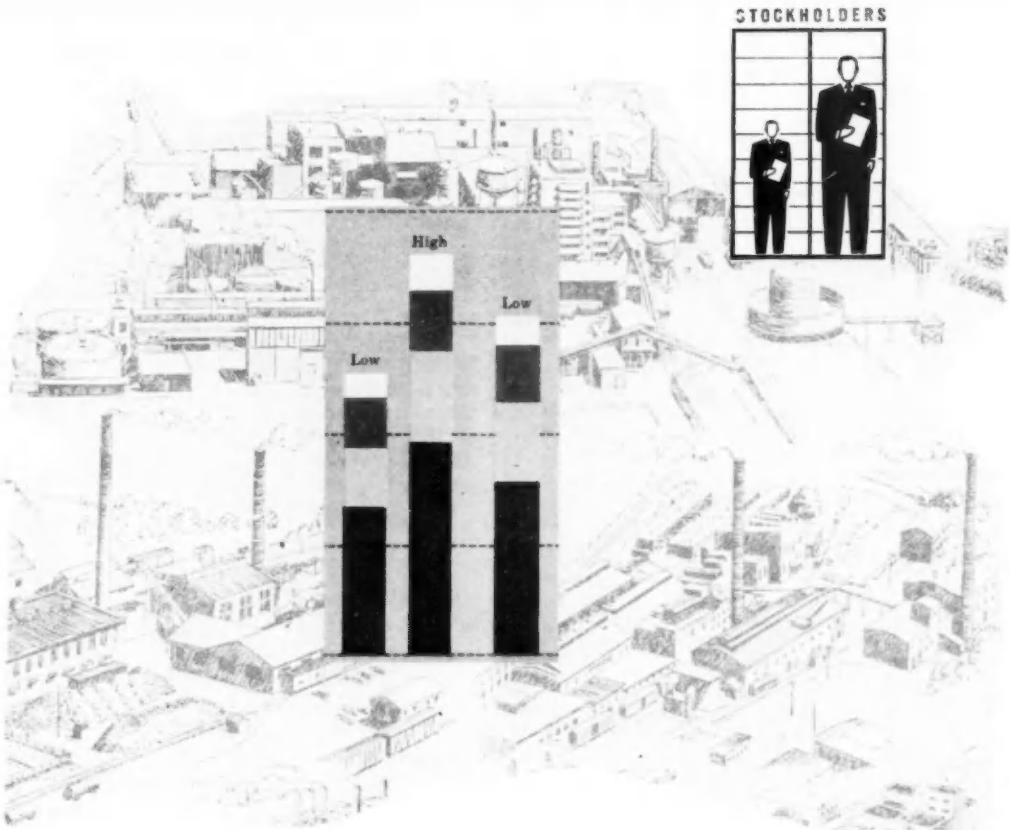
Broadly, of course, American corporations are building plants abroad because they are discovering opportunities for a higher return on invested capital than on the domestic scene. In turn, this advantage arises both from favorable conditions abroad and from obstacles at home. **Among the attractions of the foreign market, particularly in Western Europe, are lower costs, in some countries more responsible fiscal policies, and rapidly expanding purchasing power.**

The last factor is particularly significant. While the middle, and even the lower, classes in Western Europe are now on the verge of achieving an American standard of living, per capita consumption of copper, of paper, of energy and fuel, are all only a small fraction of American usage. *Thus, the saturation which threatens the domestic market is still far removed in Europe.*

And at the same time that the European market has thus been greatly improved in depth, it has also been broadened horizontally by the establishment of common trade areas and other favorable economic measures.

While investment opportunities for manufacturing industry are most promising in Europe, they are not lacking in other parts of the world. An interesting appendix on world buying power in **Vick Chemical Company's** 1959-60 annual report, just out, shows the comparative increase in purchasing power in various geographic areas during the past decade.

Although per capita income in Asia is only a small fraction of American or Western European standards, and it is estimated that only a mere 10% of India's 400 million population can afford any purchases beyond mere subsistence, Asia's buying power has nevertheless increased at a substantially more rapid rate—66.9%—than *(Please turn to page 104)*




# 25 COMPANIES SCORING EARNINGS INCREASES

## While Others Were Losing Money

### *—Those that will continue to hold their own and make progress — where doubts exist*

**By WARD GATES**

BY the end of the second quarter, corporate earnings were giving imposing evidence that profits were slipping from the high level that prevailed before the steel strike. Specifically, earnings per share for the stocks that comprise the Dow-Jones Industrial Average were only about $17 per share in the first six months of the year—a rate far below that expected—vs. $19.88 for the corresponding period of 1959. As a result, unless a healthy pick up occurs in the fourth quarter, combined earnings for these companies will fall to about $32 per share from $34.50 in 1959, and may be headed even lower for next year.

These figures cannot be brushed aside, for two important reasons: First, the companies making up the Average are among America's largest and most influential. Thus, what is happening to them must be fairly typical of the rest of the business community. And second, regardless of some unrealistic aspects of the Dow-Jones Industrials as an indicator of overall market activity, the fact remains that they comprise a yardstick used by many investors, both professional and amateur. Hence, earnings that are sliding down to dangerously near the $30 level can lead to serious market consequences. The Dow-Jones at twenty times earnings might find some justification in a period of rising earnings. When profits are declining this historically high price-earnings ratio is bound to add additional vulnerability to the prevailing level of stock prices.

#### Renewed Interest in Fundamentals

At this writing the stock market (as measured by the Averages) has dropped almost 100 points since last January, or roughly 15 percent. Many individual issues have declined by twice that amount.

## 25 Companies Reporting Peak Earnings For 12 Months Ended June 1960

| | Net Earnings Per Common Share: 12 Months Ended June 1960 | 1st 6 Months 1959 | 1st 6 Months 1960 | Annual 1959 | Annual 1958 | Annual 1957 | Indic. Div. Per Share 1960 * | Recent Price | Div. Yield % | Price Range 1959-60 |
|---|---|---|---|---|---|---|---|---|---|---|
| Allied Chemical | $2.66 | $1.41 | $1.55 | $2.51 | $1.73 | $2.19 | $1.80 | 51 | 3.5% | 66 - 46 |
| American Home Products | 6.18 | 3.03 | 3.15 | 6.05 | 5.53 | 5.03 | 4.30 | 181 | 2.3 | 198½-122 |
| American Machine & Foundry | 2.77 | 1.16 | 1.39 | 2.52 | 1.66 | 1.76 | 1.30 | 62 | 2.0 | 74¾- 26¾ |
| Beech Aircraft | 5.82 | 3.04[1] | 4.21[1] | 4.51 | 3.84 | 3.90 | 1.60 | 69 | 2.3 | 81¾- 28½ |
| Borden Co. | 2.73 | 1.23 | 1.35 | 2.60 | 2.53 | 2.47 | 1.50 | 49 | 3.0 | 50½- 35⅛ |
| Canada Dry Corp. | 1.76 | .85[1] | 1.00[1] | 1.61 | 1.41 | 1.73 | 1.00 | 22 | 4.5 | 23¾- 19 |
| Corn Products | 3.25 | 1.47 | 1.68 | 3.04 | 3.00 | 2.55 | 2.20 | 64 | 3.4 | 65⅝- 46½ |
| Drewrys Ltd. U.S.A. | 2.98 | 1.32 | 1.42 | 2.88 | 2.74 | 2.33 | 1.60 | 29 | 5.5 | 33¼- 22⅞ |
| Eastman Kodak | 3.30 | 1.36 | 1.43 | 3.24 | 2.57 | 2.55 | 2.04 | 116 | 1.7 | 136¼- 68⅝ |
| Falstaff Brewing | 2.81 | 1.27 | 1.46 | 2.63 | 2.01 | 2.12 | 1.20 | 32 | 3.7 | 32¾- 18½ |
| General Foods | 2.53 | 1.20[2] | 1.31[2] | 2.48 | 2.21 | 1.99 | 1.40 | 65 | 2.1 | 70 - 37⅛ |
| Gillette Co. | 3.66 | 1.52 | 1.84 | 3.34 | 2.97 | 2.80 | 2.87½ | 78 | 3.6 | 87½- 44¾ |
| Hershey Chocolate | 7.16 | 2.83 | 3.64 | 6.35 | 5.25 | 6.03 | 4.00 | 99 | 4.0 | 104½- 66 |
| International Business Machines | 8.65 | 3.51 | 4.19 | 7.97 | 6.93 | 4.91 | 3.00 | 520 | .5 | 550 -329 |
| Mc Donnell Aircraft | 3.55 | 3.05[3] | 3.55[3] | 2.94 | 2.93 | 2.82 | 1.00[4] | 23 | 4.3 | 27⅛- 14⅞ |
| Mc Graw-Hill Publ. | 3.24 | 1.05 | 1.20 | 3.09 | 2.75 | 3.05 | 1.85 | 86 | 2.1 | 98¾- 54 |
| Mead Johnson | 4.20 | 1.58 | 2.78 | 3.02 | 2.60 | 2.85 | 1.20 | 119 | 1.0 | 133 - 53 |
| Minnesota Mining & Mfg. | 1.30 | .58 | .63 | 1.25 | .86 | .78 | .60 | 68 | .8 | 88 - 37⅛ |
| Pepsi-Cola Co. | 2.25 | .97 | 1.03 | 2.17 | 1.88 | 1.54 | 1.40 | 39 | 3.5 | 50¼- 26¼ |
| Reynolds Tobacco | 4.77 | 2.10 | 2.42 | 4.45 | 3.80 | 3.08 | 2.60 | 80 | 3.2 | 83 - 45¼ |
| Scott Paper | 3.26 | 1.48 | 1.66 | 3.08 | 2.75 | 2.68 | 2.20 | 84 | 2.6 | 93¼- 71½ |
| Shell Oil | 2.44 | 1.14 | 1.14 | 2.43 | 2.12 | 2.23 | 1.10 | 35 | 3.1 | 45⅛- 30¼ |
| Texas Instruments | 3.97 | 1.62 | 2.00 | 3.59 | 1.99 | 1.35 | — | 186 | — | 256¼- 61¼ |
| Warner-Lambert Pharm. | 3.19 | 1.25 | 1.40 | 3.06 | 2.82 | 2.84 | 1.65 | 69 | 2.3 | 81¼- 44½ |
| Winn-Dixie Stores | 2.50 | 2.22[3] | 2.50[3] | 2.22 | 1.95 | 1.71 | 1.32 | 52 | 2.5 | 54¼- 39⅞ |

*—Estimate of indicated dividend rate.
1—9 months ended June 30.
2—Quarter ended June 30.
3—Years ended June 30.
4—Plus stock.

By now, therefore, many investors have lost the complacency that has been so prevalent in the market in recent years. They have found out, as the professionals have always known, that the market is a two way street and that losses are just as much a part of the game as profits.

As a result, there has been a renewed interest on the part of investors in the fundamentals of investing—the basic factors to which we have called attention time and again on these pages, namely *earnings and dividends*. For even the most casual observer of the market must have seen that in the last nine months companies with long stable earnings records, and good earnings in 1960, have outperformed the entire stock market.

### Companies that Resisted the Trend

To illustrate, we need only point to the soaring performance of such stocks as **Procter & Gamble, General Foods, National Biscuit** and **H. J. Heinz,** at a time when a glamour stock like **Texas Instruments** has declined 70 points, **Superior Oil** at least 500 points, and **Transitron** over 20 points.

In the accompanying table we have listed 25 companies with unique earnings accomplishments. Most of them are characterized by long records of stable, steady growth. All of them, however, have attained one special distinction: In the twelve months that ended last June—a period marked by the disastrous steel strike and the beginnings of the current downturn in business—each company earned more money per share than in any fiscal year in the last decade.

Of course, past performance is no proof of future excellence. But in many instances the reasons for the outstanding earnings in a difficult twelve month period offer compelling evidence of continued good profits.

### Companies That Look Ahead

Take **Corn Products** as an example. The company has been the leader in the corn refining field for years, and has pioneered literally hundreds of new products and new uses for its basic raw material. Two year ago, however, management saw the need for even broader product lines, wider markets and a foothold in the rapidly growing consumer markets of Europe. A merger was consummated with Best Foods, providing all three of these requisites at one time. At the moment earnings abroad are growing fast enough to offset the slower pace at home, and to assure Corn Products a steady rate of profits growth.

Earnings for Corn Products have risen consistently over the years, climbing to $3.04 per share in 1959 compared with only $2.38 back in 1955. In the 12 months ending June, they climbed even further to $3.25 per share, and should reach at least that level for the fiscal year 1960.

**Eastman Kodak,** a well established "blue chip," may also illustrate the benefits of forward looking management. Although its operations include chemicals and textiles as well as photographic equipment, the latter still constitutes the bulk of revenues. Hence, the company has long followed a policy of encouraging any development that furthered a public interest in photography, whether it was of Kodak origin or not.

As the largest, and most firmly entrenched of the film producers and processors, Kodak has wisely avoided disparaging competitive products in favor of participating in the benefits of larger film and processing revenues.

This enlightened view has made Kodak doubly fortunate. First, it has benefitted from the normal

increases arising from an increase in population. Secondly, by avoiding debilitating competitive battles in the photo equipment business it has been able to increase profit margins by taking maximum advantage of the more profitable film and processing business. Had Kodak bucked the new equipment makers too strongly, they would have been encouraged to design their own special films and processes. By acceptance on friendly terms, competitors were able to design equipment compatible with Kodak's products saving themselves large capital outlays, and lining Kodak's pockets with profits.

The results have been favorable. Kodak has raised its earnings consistently all through the last decade, and is now at a new peak. For the 12 months ended June 1960 the company earned $3.30 per share versus $3.24 in 1959, the highest fiscal year earnings on record. Moreover, for the first six months of 1960 per share net was $1.43 against $1.36 in the same period last year, indicating a probable new record for the current year.

### Riding the Population Wave

A rise in population does not create automatic profits for manufacturers of consumer products. But it certainly creates a fertile field for profit potential for those companies and industries geared to take maximum advantage of expanding markets.

Two groups that specialize in liquid refreshments, the soda and beer producers, provide interesting examples of the benefits that can result.

The soft drink producers have prospered with the rapid rise in the younger segment of our population. Both **Canada Dry** and **Pepsi Cola,** have enjoyed an enviable earnings record in recent years. Moreover, the trend of our future population growth indicates even happier days ahead, if the industry can avoid destructive competition.

A little illustrative material will help demonstrate what has to be avoided. The appliance makers, television producers and the textile manufacturers are groups that failed to prosper in a period of rising population. The reason, of course, is that productive capacity and the number of companies in these fields multiplied even faster than the demand for products. The period of active competition took place at the same time that demand was greatest, cutting down profit margins. The soft drink industry and the brewing industry offer a striking contrast to this pattern. In both groups capacity was raised far in advance of the maximum demand for products, and the period of merger and consolidation had been completed. Capital requirements are, to be sure, smaller for the soft drink producers than for the brewers, and this way indicate more vulnerability in the future. But it will not be easy for new producers to crack traditional markets.

The advantage in both groups has gone to the national brands. and this pattern is not likely to change quickly. Thus Pepsi Cola, which earned $2.25 in the last 12 months, and also had record earnings in the first six months of this year, appears headed for even more profitable days in the next several years. Canada Dry has coupled its natural advantages with more aggressive merchandising in the past year or two, and has reaped exceptional benefits. Earnings last year were $1.61 per share, the highest on record. But the last 12 months were even better, bringing $1.76 into the till.

### More Beer Drinkers Coming

**Falstaff Brewing and Drewry's Ltd.** appear on this select list of companies as a forerunner of the truly excellent prospects that lie ahead. In the next ten years the 18 to 45 year age group (the beer drinking segment) will increase by almost 50 percent. As the market grows, the brewers will be well primed to fill the demand profitably.

The last several years have seen little if any growth in the total consumption of beer, but it has witnessed major changes in the industry. The small regional producer has had a tough time making ends meet and has gradually succumbed to the inroads of the larger companies with national advertising and promotionol policies. Thus, the number of companies has contracted at the very time that the market is about to expand. Moreover, the outlay for big company expansion has been relatively small. It costs about $25 per barrel to build a brewery, but by acquisition of existing facilities most of the major companies have built up their capacity at less than $15 per barrel.

Falstaff has expanded aggressively in some 27 states and has managed to increase profits in quick response to the rise in demand. After three years of no progress from 1955 through 1958, its expansion began to pay off, reaching a high point in the last twelve-month reporting period, when earnings rose to $2.81 compared with a previous fiscal year high of $2.63. For the full year 1960 Falstaff will probably earn $3.10, and a rise of at least 10 percent a year seems in line through most of the 'sixties.

### Opportunities in Paper

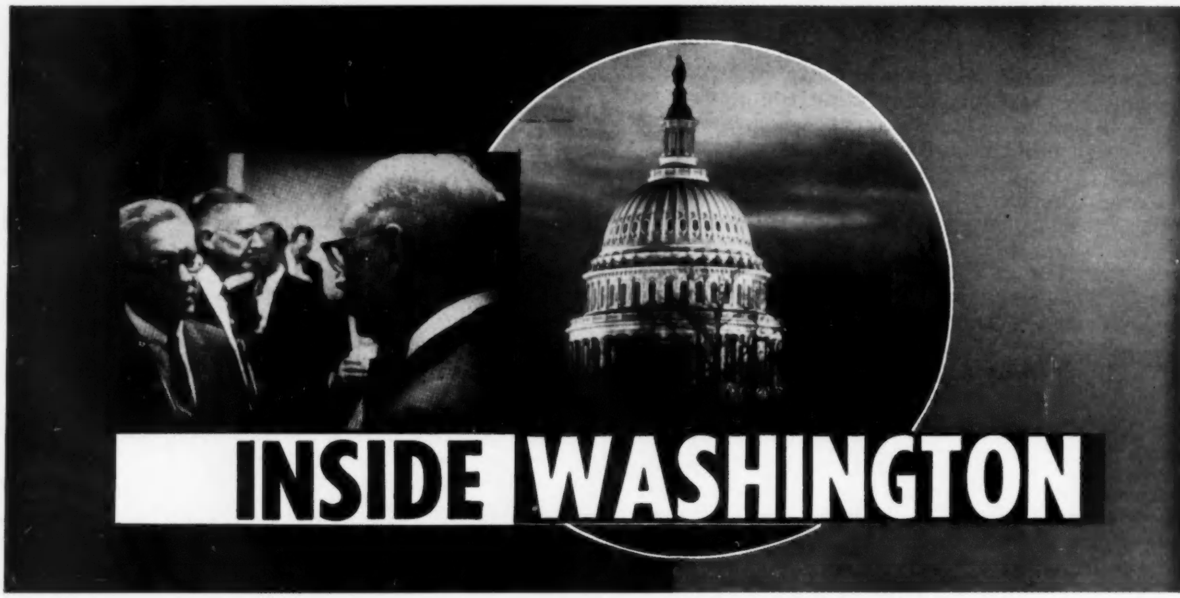
**Scott Paper,** by appearing on this select list, once again proves its mettle. The company has long been recognized for its astuteness in riding the population wave through excellent new product development and exceptional merchandising.

The market for paper products on the consumer level is expanding with the population, but it is also growing through the efforts of Scott and **Kimberly-Clark,** its major competitor. In the first six months of this year Scott was in the select circle of companies that improved their earnings over last year. For the 12 months ending in June, moreover, profits soared to $3.26, or 10 percent better than for fiscal 1959.

### Special Performers

Special factors account for the exceptionally good earnings of several of the companies on the list. **Mead Johnson,** for example, though already a solid and well-managed drug company, nevertheless reaped a bonanza this year with Metrecal, a special dietary product that met with amazing consumer success. Earnings for the 12 months ended June rose to $4.20 against a high of $3.02 in 1959 and only $2.60 in 1958. Moreover, the impact of Metrecal is so strong that full year earnings in 1960 will probably rise further to about $6.00.

For investors, however, it is important to consider two important factors in light of the current high price of the stock. First, competitive products are beginning to flood the market, with such giants as General Foods entering the field. Second, the chances of comparable earnings growth in 1961 are slight unless Mead Johnson can develop another product quickly with a *(Please turn to page 100)*



# INSIDE WASHINGTON

BY "VERITAS"

**SECURITY** procedures are due for drastic overhaul, either by Congress or by the Administration—whichever gets around to it first. Recent defection of two brilliant young National Security Administration mathematicians, both of them experts at coding and decoding, has jolted the Nation's Capital—from White House to Capitol Hill. Pentagon and NSA have discounted the defectors' "inside" knowledge of U. S. security secrets, but already standing out like a bandaged thumb is fact that derogatory information concerning the pair (all of it obtained by the Federal Bureau of Investigation prior to their hiring) was deliberately (or carelessly) ignored by NSA and the Pentagon. In the making is a Congressional move to co-ordinate all security personnel investigations—Army, Navy, Air Force, NSA, etc.—under the direction of FBI Director J. Edgar Hoover, with Mr. Hoover having the *final* say-so on the clearance of *any and every* person under consideration for employment in security sensitive positions. Congress, already irked and alarmed—even now willing to take Central Intelligence Agency operation away from CIA Director Allen Dulles—may enact the necessary legislation early in the next Session.

**WASHINGTON SEES:**

Inreased Latin-American support for the United States in the Communist cold war attempt to invade this Hemisphere is very definitely here, according to experts in the Washington Diplomatic Corps, State Department's Latin-American "desk," and various intelligence agencies reporting back to the national capital.

The really big break came when Congress "went along" with the President's request for $100 million of immediate cash aid to the Latinos, plus authorization for $600 million more to help the southern nations in their agrarian reform and rehabilitation plans.

A further boost was given when President Eisenhower "picked up the tab" at an elaborate luncheon at New York's plush Waldorf-Astoria Hotel for 18 of the 20 southern republics — Cuba and the Dominican Republic (with whom we have severed diplomatic relations) excepted.

In the background there is one sour note, however — Panama. In a generally condemned move, Mr. Eisenhower authorized flying of the Panamanian flag within the Canal Zone, now under definite and binding lease to the United States.

The Panamanian guest refrained from specific comment on the gesture, but there is little doubt here that it amounted to "the camel's nose under the edge of the tent" — that Panama (perhaps backed by armed Castro stooges) may try to take over the "big ditch."

**NEGRO** leaders of the United States are far from impressed by Fidel Castro's bid for Negro support of the Cuban dictatorship. The bearded Castro's dramatic—but carefully planned—shift to a Negro hotel in Harlem on the opening of the United Nations meet has been analyzed for what it was: A propaganda stroke to win American Negro backing. The smarter Negro leaders of this country realize they have more to gain for their race through Constitutional procedures before U. S. Courts than through endorsement of the bloody, pro-Communist antics of the would-be Dictator of the Caribbean. This is solid information coming from Negro, Diplomatic, and reliable intelligence sources.

**LABOR**, although confident that the Democrats will take the White House and increase House-Senate majorities come November 8, is not slackening its political activity. On the contrary, the big unions (Jimmy Hoffa's Teamsters excepted) are throwing more dollars and man hours into the current national campaigns than into those of 1952 and 1956 combined. Precinct workers have been organized on a heretofore unprecedented scale, while the AFL-CIO's Committee on Political Education (COPE) has trebled its efforts to raise "voluntary" contributions—millions of them (at $1.00 each) secured by pressures at the shop steward level. It is all perfectly legal until such time as proof of coercion can be handed the Department of Justice.

# As We Go To Press

**New Land Bank in the Making.** It will not, however, be a soil bank to take land out of agricultural production, but a realty reserve to provide for industrial expansion. Industrial realtors have laid down the warning that there is need for establishment of a land reservoir to provide for the industrial growth now anticipated for the mid-sixties. Needed are thousands of square miles of land in "deep freeze" to provide for future industrial development lest there be a shortage of desirable sites abutting metropolitan cities, mass transportation, and public utilities.

It is now urged that railroads and utility companies, with their detailed knowledge of present and potential industrial developments of their respective areas, start buying — or at least optioning — probable plant sites to "bank" for the future. The recommendation is from a foremost industrial realtor, who has already declared there must be "enlightened conservation of industrial land to meet future needs." Surprisingly, his recommendation has been quickly accepted by more than two-score city-county areas, now busily zoning lands for industrial usage, while rail carriers and utilities are co-operating with local zoning authorities.

**Small Business Prepares to Fight Trading Stamps in Next Congressional Session.** Although legal in all states but Kansas and the District of Columbia, and an accepted "way of life" since the tail end of the previous century, Small Business interests (and their associations) are certain to lobby for a Federal statute to outlaw the green and gold stickers now available (for premiums and gifts) at the larger chain stores and retail outlets.

The "little fellows" will assert the trading stamp is an unfair means of competition available only the wealthier outlets who can use the premium allure at a cost (approximating 2% cash discount) that is not possible to the independent retailer. The trading stamp companies are prepared to answer that their gross turnover is around $600 million, "a small amount in the over-all sales picture." Backing the companies will be some 15 million housewives and their families now getting "kicks" out of the stamps and their alluring rewards.

**Congressional Farm Bloc to be Whittled.** The 1960 census will cut down the members of the Congressional farm bloc. The number of House Members from each state, starting with the 1962 election, will depend on the 1960 census totals. Census Bureau, in a preliminary estimate, reports that 15 states will lose a total of 21 seats when its figures are finalized. Ten of the 15 states are in the farm belts of the Midwest and South. Losses are no doubt concentrated in rural areas meaning there will be fewer "farmers" in the lower House of the national legislature.

Farm belt states slated to lose one or more Congressmen are Illinois, Iowa, Kansas, Minnesota, Nebraska, Alabama, Arkansas, Kentucky, Mississippi and North Carolina. Five other States, not so agricultural, which may lose Congressional representation, are New York, Maine, Massachusetts, Pennsylvania and West Virginia.

States that will gain Congressional representation, and the number of Representatives which may be gained, are California (7), Florida (4), Michigan (2), Texas (2), Hawaii (1), and Arizona (1).

In the meanwhile, there is the prospect that may of the reallocations will be contested on the ground that the Census Bureau "fell down" on the job — that enumerators were "conspicuous for their absence" in hundreds of areas across the nation. Census will deny the charge — naturally — but it is fairly well substantiated by more than one city and county. Educated guess is that Census tabulations — right or wrong — will prevail.

**Top Level Labor-Management "Confab"**

**Destined for Limbo.** So-called White House Labor-Management conference, suggested by President Eisenhower in January, and accepted by both groups, now is definitely "on ice". Labor, in a huff because Industry-appointed members were not "big enough," now prefers to await election results before getting down to any serious discussions, feeling that a Democratic capture of the White House would put union negotiators in a "position of strength".

Elsewhere on the Labor front, the 17 railway unions are massing plans and forces for an all-out attack on the passenger train abandonment provisions of the Transportation Act of 1958 which permits the Interstate Commerce Commission to authorize abandonment of passenger train schedules upon presentation to ICC of valid reasons for abandonment, without the complicated, long-draw-out procedures of public hearings, filing of voluminous briefs, etc. Fact remains, however, that ICC will hold that the rail carriers are losing too much passenger business to competitive transportation — buses and airlines — both of them enjoying Federal subsidies not available to the rails.

**Russia to Step-up Economic Offensive.** Already "dumping" crude oil at lower prices than Free World petroleum producers, often on a barter basis, the Soviet — nettled by set-backs in the Congo — will intensify its economic assault. Next on the USSR trade offensive agenda is dumping of coal, primarily in European markets now suffering a serious surplus. Reliable intelligence reports indicate the Russians also are preparing some "surprises" in wood pulp, gold, and ferrous ores. Lacking sufficient refinery capacity for its own needs, there is little chance the Reds will invade the gasoline and other finished oil products fields.

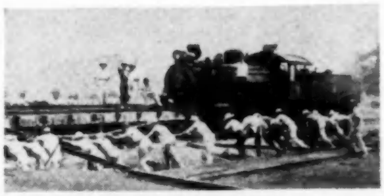
**Inter-American Highway to Get Jaundiced Congressional Eye.** Thus far we have sunk nearly $250 million in the proposed automobile highway from the Rio Grande River to Panama, over a period of some 12 or 15 years. At this time, the project is nearly a complete failure but our Latin neighbors press for continued United States aid for what might readily be termed an international boondoggle. The American Automobile Association (AAA) optimistically predicts the route will be safely open to traffic by late 1962 or early 1963.

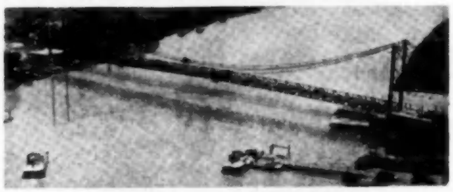
U. S. Bureau of Public Roads and Members of Congressional Committees (notably Public Works and Appropriations) begin to take a dim view. Evidence that some of the Latin countries have taken us for a financial gold-digging "ride" seems to mount. We may pour more dollars into it, but only if there is firm evidence that our southern neighbors will put in larger portions and take proper steps to eliminate native graft and waste. On the other hand, there is the ticklish problem of not giving offense to the Republics of Guatemala, Nicarauga and Honduras — all walking a tight rope between cooperation with the United States and adherence to the wishes of Cuba's Fidel Castro, who now has "agents provocateurs" in these and other countries the highway would traverse.

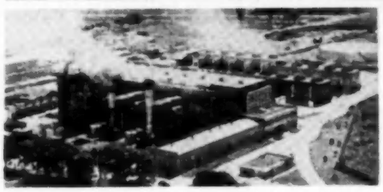
**Small Business Girds for "War."** Small businessmen's organizations, with memberships totaling about 750,000 from coast-to-coast are organizing and preparing a legislative agenda for the incoming Congress that is certain to produce drawn-out wrangling, and possibly some changes. High on the list is a contemplated change from the Electoral College system of Presidential selection to election by a popular vote majority.

Other changes the small businessmen will seek include legislation to eliminate labor featherbedding; further tightening of both the Taft-Hartley and Landrum-Griffin labor Acts; positive legislation to eliminate State Use Tax imposed on Out-of-State businesses; elimination of the tax advantages now extended to co-operatives.

In the meanwhile, the "little fellows" are closely surveying the need for realignment of the political parties — conservative or liberal, rather than Republican and Democratic; impact of our liberal import policies on all business, and the raising of income limitation on Social Security. Tentatively, the organizations feel this would lead to excessive SS levies in the near future and possibly add as many as two million "undeserving" to the SS rolls.








# ECONOMIC AID WITH A MISSION FOR LATIN AMERICA

**By NORMAN A. BAILEY**

- **The accomplishments of the Bogota conference as a first step**
- **A realistic appraisal of what to do now . . . the part our citizens under democracy can play in making private investment loans in Latin America — part our government can play . . . the best way to help**
- **Why Latins should invest at home instead of in the U.S.A. and Europe — and how investments in their own country can be even more profitable for them**
- **High promise in the new Latin American Common Market Agreement signed recently in Montevideo — and other steps toward economic and political collaboration that will build strength for Latin America**

LAST month, at Bogota, Colombia, the representatives of the Latin American republics, with the exception of the Dominican Republic, sat down to hear C. Douglas Dillon, Under-Secretary of State for Economic Affairs, outline the new American aid plan for Latin America. What the delegates heard did not altogether please them, for the program had no built-in guarantee of continuity. What we offered was $500,000,000 for such purposes as low-cost housing, agrarian reform and education, the type of investment that is usually called "social overhead," investment that brings no returns, or very low returns in monetary terms. **Secretary Dillon characterized the program as an attack on "poverty, ignorance and lack of social justice" in Latin America, and he spoke of the decision of the United States to devote "large additional resources to the inauguration and carrying forward of a broad new social development program for Latin America."**

In answer to the criticism that the plan did not envision industrial development as well, Dillon emphasized that the program "is designed to be in addition to, and not in substitution for, assistance for basic economic and industrial development."

Although Colombian Foreign Minister Turbay Ayala was quoted as saying that the opening session of the Conference was "sensational," and although the American press reported that the reaction of

### Excerpts From the Act of Bogota

**The Special Committee for the study of new measures of economic cooperation . . .**

**Considering it advisable to launch a program for social development, in which emphasis should be given to those measures that meet social needs and also promote increases in productivity and strengthen economic development;**

**Recommends to the Council of the Organization of American States:**

**I MEASURES FOR SOCIAL IMPROVEMENT**

**An inter-american program for social development should be established which should be directed to the carrying-out of the following measures of social improvement in Latin-America, as considered appropriate in each country:**

1. **Measures for the improvement of rural living and land use.**
2. **Measures for the improvement of housing and community facilities.**
3. **Measures for the improvement of educational systems and training facilities.**
4. **Measures for the improvement of public health.**
5. **Measures for the mobilization of domestic resources.**

**II CREATION OF A SPECIAL FUND FOR SOCIAL DEVELOPMENT**

**III MEASURES FOR ECONOMIC DEVELOPMENT**

**IV MULTILATERAL COOPERATION FOR SOCIAL AND ECONOMIC PROGRESS**

**In approving the Act of Bogotá, the delegations to the special committee, convinced that the people of the Americas can achieve a good life only within the democratic system, renew their faith in the essential values which lie at the base of Western civilization, and reaffirm their determination to assure the fullest measure of well-being to the people of the Americas under conditions of freedom and respect for the supreme dignity of the individual.**

the delegates was a warm and enthusiastic one, on-the-spot observers noted that by far the loudest applause was for the speeches of Cuban delegate Regino Boti, who described the entire plan as an instrument "to silence the militant hope awakened in the people of Latin America by the Cuban revolution," and went on to accuse the United States of having committed "punitive, barbarous" economic aggression against Cuba. **Boti went on to suggest that the Latin American countries should solve their development problems by forced loans from the one and a half billion dollars he alleged were ytaken out of Latin America every year by U. S. corporations.**

### "Act of Bogota" A Constructive Vehicle — But . . .

At the end of the Conference the delegates, except for Cuba, adopted the so-called "Act of Bogota," which outlined a generalized plan for social and economic progress in Latin America. The Act of Bogota begins with a section on land reform and the modernization of agriculture, goes on to the problem of low-cost public housing and the promotion of private financing institutions. Education and an attack on illiteracy receives its share of attention, as does health and sanitation. The United States Special Fund for Social Development will be used for all these purposes. and it is heartening to note that the Act makes reference to the need for reformation of the tax structure in the recipient nations, to provide additional revenue in an equitable and effective manner.

What is the reality behind the Act of Bogota? In the first place the plan is totally inadequate to even begin to deal with problems of such staggering magnitude. Secondly, the money was extorted from a grudging Washington administration by means of the international blackmail of the Castro régime in Cuba, and the Latin Americans know it. If there were no Castro there would be no United States Special Fund for Social Development. Thus the Latin Americans have been able so far to extract about half a billion dollars from the United States since Fidel Castro rode into Havana at the head of his army, and they think he's good for a great deal more. If not, there's always the chance that Venezuela may follow the "fidelista" path, and then there would be no limit to American generosity.

### A New and Realistic Policy Needed

The dangers of this approach are too obvious to require much elaboration. The United States has needed, for many years now, a well-thought-out and feasible policy towards Latin America, not only in the economic field, but in the political as well. ► Instead, we have followed no policy but vacillation. ► We have supported bloody tyrants and have reaped Castros for our pains. ► We have refused aid to Brazil, the most important country in Latin America, and for decades a staunch friend of the United States, while we have lavished money on Argentina. a state supported by its army, with declining national output, a defiant labor force, and o dictator-in-exile who is still very much of a threat. ► While pouring tens of billions of dollars into the countries of Europe, now our fiercest competitors in international trade, our grants and credits to Latin America, a large and close-by market for our products, has amounted to some three and one-half billions.

**From 1945 to 1954 more U. S. aid was given to wealthy Belgium and tiny Luxembourg than to all twenty Latin American nations combined. At the same time military aid to the Latins totalled almost $500,000,000, a sum which might as well never have been spent for all the good it did for the military defense of the Western Hemisphere.**

**There is little comprehension, either in this country or in Latin America, of the proper sphere of economic assistance, nor of the effort that is necessary internally before an underdeveloped country is even prepared to receive large sums of money which can be put to useful work rather than merely promoting inflation and the further enrichment of those who are already rich.**

**Military Aid by the U. S. Government to Latin America**

Fiscal Years 1950-60—(Thousands)

| Country | |
|---|---|
| Argentina | $ 6,328 |
| Brazil | 186,545 |
| Chile | 56,865 |
| Colombia | 34,873 |
| Costa Rica | 13 |
| Cuba | 16,430 |
| Dominican Rep. | 8,719 |
| Ecuador | 24,789 |
| El Salvador | 149 |
| Guatemala | 1,624 |
| Haiti | 2,411 |
| Honduras | 1,099 |
| Mexico | 6,892 |
| Nicaragua | 1,600 |
| Paraguay | 341 |
| Peru | 61,689 |
| Uruguay | 30,343 |
| Venezuela | 49,382 |
| Unspecified | 3,542 |

### Democracies' Private Investment Capital Available

There is little comprehension

that tnere is private capital available in this country and in Europe for any feasible and well-presented industrial or mining project in Latin America. *This capital does not want to gouge the Latin American countries, and in fact, it usually leans over backwards to avoid any appearance of doing so. Venture capital is surplus in this country, and is looking for outlets overseas. No Latin American industrialist need leave New York empty-handed if he has a project which makes economic and financial sense. If the project does not make economic and financial sense then he has no business getting the money, from the government or from anyone else.*

### The Other Side of the Coin

However, there are two obstacles in the way of the productive investment of this capital in Latin America. ► One is the lack of good propositions. ► Most Latin American promoters, and even established companies searching for funds for expansion, think it is sufficient to present two typewritten pages and a disarming smile to woo equity and debt capital. Market surveys, feasibility studies, projections of future earnings, estimates of rate of return, discussion of management and so forth are usually lacking, or are present only in the most sketchy form. ► Equally important as an obstacle is the situation typified by the reception received recently by a representative of a large Wall Street investment house when he visited a Caribbean republic to discuss a government loan to be used for road improvement. Everything went smoothly until he was received privately by the Minister of Finance, who wasted no time, but leaning over his desk and grinning broadly, asked: "What's in it for me?" The Minister was informed that there was nothing in it for him, nor, because of his comment, was there anything in it for his country.

### Why Latins Should Invest at Home

There are many things the Latin American countries can do to aid materially in their own development which will cost them very little money. **It seems almost superfluous to say that one of these things is to invest their money in their own countries instead of in the United States and Europe, and yet this is one of the most important steps that they can take. Another is to ensure, to the greatest extent possible, honesty in their public servants. This can only be done by providing adequate salaries and then punishing very severely any infractions.**

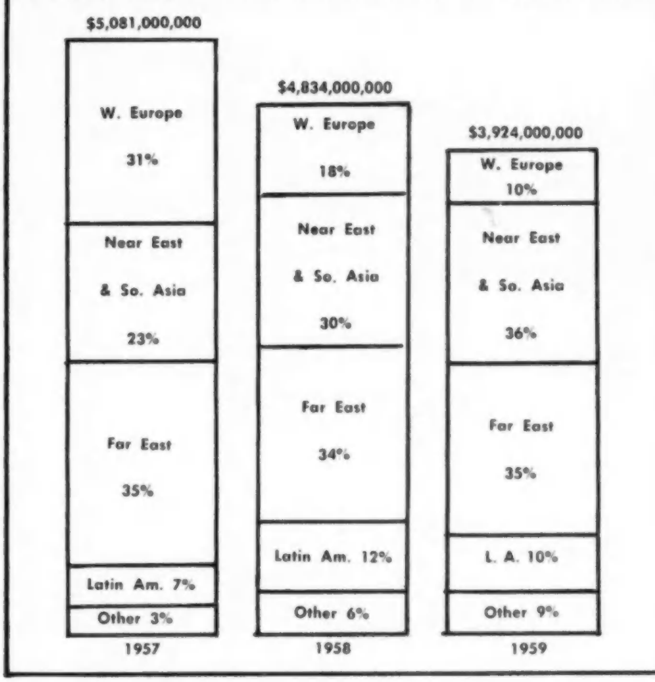
The Latin American governments should provide technical assistance and advice to their private capitalists, instead of hindering and harassing them at every turn. If these countries cannot provide the necessary capital themselves, they should at least not make the task of those searching for such capital harder than it need be.

### Hope in Latin American Economies

A recent development of promise is the Latin American common market agreement signed some months ago in Montevideo by Uruguay, Paraguay, Brazil, Argentina, Chile, Peru and Mexico, and open to the signature of any of the Latin American countries. Combination to provide wider markets and greater diversification offers great opportunity to Latin America for the speeding up of its economic development, and the Montevideo Treaty, although full of loopholes in its present form, is at least a step in the right direction.

Finally, the Latin Americans could make use of the market mechanism instead of merely complaining about it, by endeavoring to become more competitive in the supply of raw materials, or, conversely, to make what the world needs instead of those commodities which are in over-supply. This is, of course, something that those countries which are dependent upon mineral exports *(Please turn to page 99)*

**AREA DISTRIBUTION OF U. S. GOVERNMENT AID, 1957 - 1959**




**Assistance by the U. S. Government to Latin America**
Fiscal Years 1946-59—(Thousands)

| Country | Grants | Credits | Totals |
|---|---|---|---|
| Argentina | $ 582 | $ 206,642 | $ 207,224 |
| Bolivia | 127,752 | 43,296 | 171,048 |
| Brazil | 59,787 | 970,100 | 1,029,887 |
| Chile | 37,886 | 213,549 | 251,435 |
| Colombia | 24,070 | 209,423 | 233,493 |
| Costa Rica | 35,933 | 13,435 | 49,366 |
| Cuba | 3,231 | 46,563 | 49,794 |
| Dominican Republic | 2,803 | — | 2,803 |
| Ecuador | 17,705 | 39,118 | 56,823 |
| El Salvador | 9,241 | 642 | 9,883 |
| Guatemala | 80,072 | 2,667 | 82,739 |
| Haiti | 31,818 | 25,524 | 57,342 |
| Honduras | 14,339 | 4,756 | 19,005 |
| Mexico | 110,059 | 389,154 | 499,213 |
| Nicaragua | 21,728 | 1,753 | 23,481 |
| Panama | 24,771 | 5,816 | 30,587 |
| Paraguay | 15,085 | 13,365 | 28,450 |
| Peru | 43,479 | 177,781 | 221,260 |
| Venezuela | 2,609 | 21,253 | 24,460 |
| Uruguay | 2,871 | 12,253 | 15,364 |
| Latin America, general | 15,364 | — | 15,364 |
| Unspecified | 518,236 | 31,837 | 550,073 |
| Total | 1,199,421 | 2,429,522 | 3,628,943 |

# What About END OF THE YEAR EXTRAS IN STOCK OR CASH?

## *— Companies which may skip payments — those likely to make disbursements*

By WILLARD E. STOUGHTON

AS the fourth quarter approaches, investors begin to look forward to that annual bit of corporate largesse—the extra dividend or the dividend increase. But as the directors of America's major corporations sit down to debate dividend policy this year, their attention will be focussed on a complex of business and economic factors that is far from conducive to generous dividend policies.

For one thing, we are moving into a recession that threatens to spill over into next year. The evidence of a slow-down is not hard to find:

Industrial output has turned down; consumer spending in July and August declined contraseasonally; housings starts are falling further behind last year; manufacturer's stocks of finished goods have been the fastest rising component of inventories; personal income rose in August only because of increases in federal government wages and rising Social Security payments; order backlogs are down; new orders trail last year's pace; easier money has so far failed to stimulate business activity; and a steady outflow of gold prevents the Federal Reserve Board from resorting to even easier money tactics.

This imposing array of data, coupled with the simple fact of lower corporate earnings, is causing directors to scrutinize all outlays carefully, whether they be for dividends, expansion or for inventories. Hence, stockholders in many companies stand to be disappointed this year.

In effect, directors will be weighing more than the current earnings available for dividend payments. They will be looking ahead to determine the size of the cash reserves needed to see them through the difficult period ahead.

Thus, companies intimately connected with the steel and metal trades, as well as those relying on the level of capital spending can be expected to trim their sails at year end. After all, government estimates had placed capital spending at a \$38 billion rate by year end, with the trend rising. Instead, the rate is closer to \$36.5 billion and the trend is slowing down.

**Clark Equipment,** an excellently run producer of lift trucks and other capital goods equipment serves as a good case in point. So far this year capital spending has concentrated more on plant improvement than plant expansion, limiting the demand for Clark's product lines. The result has not been catastrophic, but it has led to a decline in earnings to 84¢ for the first half of the year from $1.41 a year earlier. Third quarter earnings, of course, are not yet available, but other statistics indicate that Clark's picture will be no better than in the earlier quarters. Under the circumstances it is probable that the company's regular quarterly rate will be maintained, but a repetition of last year's extra and subsequent increase seems out of the question.

**Blaw-Knox,** another major producer of capital equipment, is in a similar position. The decline in steel operations has not seriously affected its output of rolling mills, but equipment used in the mills such as rollers and ladles, which account for a large part of the demand for the company's products, have not been in spirited demand. As directors meet this year end, therefore, they will be faced with a multiplicity of problems. To begin with, earnings in the first six months declined to $1.45 per share from $2.48 in the same period a year ago, and the balance of the year promises to be equally as poor. Further, the company must take a hard look at the steel industry's prospects for 1961 to determine if any substantial pick-up is in sight. Certainly, at this juncture, it is doubtful that management will think in terms of a higher dividend policy.

Blaw-Knox has paid its extras in the form of stock dividends in recent years, but responsible managements prefer to pay in this way only if earnings would warrant an equivalent cash payment. At the moment this doesn't seem to be the case with Blaw-Knox.

### Many Industries Pose Doubts

It is not necessary to stick to major capital goods producers to find companies that are likely to disappoint their shareholders this year. The appliance business has been particularly bad hit by several factors. Foremost of these has been slack demand, but when combined with heavy overcapacity, the ultimate effect is one of sharply reduced profit margins.

**Maytag,** for example, has usually been at the head of the appliance field in profitability, but this year even this well managed company has developed problems. Sales declined in the first half year, but profit margins were more seriously hurt by sharp dealer competition and the need for greater promotional outlays. The result was a sharp change in company fortunes in the second quarter. Whereas the opening period produced a small gain over 1959 earnings, net in the second quarter dropped sharply to 71¢ from $1.04 a year earlier.

Maytag continues to be a profitable company, but with consumer spending lagging behind expectations, it is doubtful that the company can look forward to the kind of earnings growth that led to two dividend increases and a large extra last year. The current $2.00 payment is secure, but we wouldn't count on anything additional.

**Robertshaw-Fulton** doesn't produce appliances, but the appliance industry is the biggest single customer for its products. Hence, the weak sales performance for that industry so far this year has had a direct impact on the company's earnings. Moreover, the poor prospects for the near future imply no imminent pick up for the company's "bread-and-butter" lines.

While it is true that several non-recurring factors such as start up costs of new facilities hampered earnings in the first quarter, it is still a fact that appliance demand is far from exhuberant. And since the company's gauges and controls are used principally in that field, it is doubtful that the promise of the near future is any better than the immediate past.

For the first half year, Robertshaw earned $1.01 per share compared to $1.85 in the same period a year ago. Full year results may well cross the $2.00 mark. This is ample protection to the regular $1.50 payment, but holds out little hope of an increase or an extra stock dividend at year end.

Some of the major auto suppliers also become doubtful extra payers this year. **Libbey-Owens-Ford,** one of the highest quality members of the group, and the one with the most enviable record, has had difficulty this year in the profit column. Earnings so far have come to only $2.43 per share compared to $3.16 per share in the same period last year. Moreover, with compact cars gaining in popularity, (and using less glass) and with homebuilding trailing last year, it is doubtful that LOF will show much improvement over the next several quarters.

Earnings for the year should reach $4.00, down from over $5.00 last year. This will amply cover the $2.40 annual dividend requirement, but it severely limits the possibilities for an extra at year-end.

### Special Reasons

In addition to generally depressed earnings and business conditions there are occasional special reasons for doubting dividend extras this year. **Alpha Portland Cement** is suffering not only from a decline in earnings, but also from an adverse tax ruling that reverses the depreciation benefits allowed under a previous decision. Hence, along with other cement companies Alpha faces not only a larger tax bill, but also the possibility of having to make up for back taxes if the courts should hold the industry liable. In light of these factors it is doubtful that stockholders can count on a repeat of last year's 25¢ extra and 2% stock dividend. In fact, they may get neither.

**Eastern Airlines** special reason is its large deficit in the first half compared to profitable operations last year. The tremendous costs of financing its jet transport purchases combined with higher operating costs may well threaten another stock extra. There is a possibility of payment however, if profits move onto the plus side in the second half, since the company's cash flow from depreciation of the new aircraft is enormous.

A glance at the accompanying table of companies that may disappoint their stockholders this year illustrates that the problem cuts across many industrial lines. In general, however, the likelihood that dividend will not be as generous lies not solely in the fact of lower earnings. Rather it is that the outlook for next year is far from clear at best.

**Ruberoid** and **Bridgeport Brass** face further setbacks from the weak housing market. **Deere** is just beginning to see a glimmer of hope that farm equipment sales will expand next year; **Timken Roller Bearing** faces a doubtful automobile year and a more

## Stocks Likely to Pay Extra or Year-End Dividends

| | 1959 Net Earnings Per Share | 1st 6 Months Net Earnings Per Share 1959 | 1st 6 Months Net Earnings Per Share 1960 | 1960 Estimated Net Per Share | 1959 Total Div. Payment | Amount of Extra Div. Paid 1959 Year-End | 1960 Indicated Regular Rate * | Recent Price | Price Range 1959-60 |
|---|---|---|---|---|---|---|---|---|---|
| Abbott Laboratories | 53.32 | $1.42 | $1.48 | $3.40 | $1.90 | $ .10 | $1.90 | 56 | 84¾- 52¾ |
| American Chicle | 3.21 | 1.60 | 1.67 | 3.45 | 2.00 | .40 | 1.60 | 66 | 71 - 44¼ |
| Amer. Home Products | 6.05 | 3.03 | 3.15 | 6.70 | 4.00 | .40 | 3.60 | 173 | 198½-122 |
| American Machine & Foundry | 2.52 | 1.16 | 1.39 | 3.25 | 1.07 | — | 1.30 | 61 | 74¾- 26¾ |
| American Tobacco | 4.62 | 2.13 | 2.13 | 4.75 | 2.50 | .50 | 2.30 | 61 | 63⅜- 51⅛ |
| Bristol Myers | 1.07 | .83 | 1.02 | 2.15 | .85 | .10 | 1.00 | 54 | 65⅝- 22⅝ |
| Corning Glass | 3.57 | 1.73 | 1.81 | 3.90 | 1.62 | .50 | 1.50 | 160 | 186 - 89¾ |
| Cutler-Hammer | 4.31 | 2.29 | 1.91 | 4.25 | 2.50 | .50 | 2.00 | 73 | 96 - 59½ |
| Diamond Alkali | 3.90 | 1.80 | 2.19 | 4.40 | 1.80 | 3%[1] | 1.80 | 59 | 66⅜- 68⅝ |
| Eastman Kodak | 3.24 | 1.36 | 1.43 | 3.50 | 1.56 | .24 | 1.80 | 113 | 136¼- 68⅝ |
| General American Transportation | 3.10 | 1.53 | 1.85 | 3.70 | 1.95 | — | 2.10 | 66 | 80½- 51¼ |
| Gillette Co. | 3.34 | 1.52 | 1.84 | 3.75 | 2.50 | .37½ | 2.50 | 77 | 87½- 44¾ |
| Homestake Mining | 2.20 | 1.09 | 1.17 | 2.35 | 2.00 | .40 | 1.60 | 43 | 49¼- 37 |
| Household Finance | 2.42 | 1.16 | 1.26 | 2.50 | 1.20 | 5%[1] | 1.20 | 32 | 37¼- 26¼ |
| Mc Graw-Hill Publishing | 3.09 | 1.05 | 1.20 | 3.50 | 1.65 | .25 | 1.60 | 84 | 98¾- 54 |
| Merck & Co. | 2.78 | 1.48 | 1.37 | 2.75 | 1.60 | .20 | 1.60 | 79 | 96½- 67 |
| Minneapolis Honeywell | 4.20 | 1.76 | 1.71 | 4.30 | 1.85 | .15 | 2.00 | 134 | 178¾-111½ |
| Parke, Davis & Co. | 2.09 | .93 | 1.02 | 2.15 | 1.40 | .40 | 1.00 | 41 | 51⅛- 36⅜ |
| Penney, J. C. | 2.09 | .79 | .67 | 2.20 | 1.42 | .30 | 1.20 | 40 | 45 - 32⅞ |
| Sears, Roebuck | 2.64 | 1.02 | .97 | 2.80 | 1.35 | .25 | 1.20 | 51 | 59 - 39¼ |
| Texaco | 5.85 | 2.78 | 2.93 | 6.00 | 2.60 | .20[2] | 2.60 | 72 | 87⅞- 64½ |

*—Estimated total 1960 payments, but excluding possible year-end declarations.

1—Paid in stock.
2—Plus 2½ in stock.

puzzling outlook for its railway equipment lines; and **Mack Truck** appears to have reached the peak in terms of enormous year-to-year increases in the demand for trucks.

The greater the doubts that lie ahead, the less chance there will be for extras from the companies that have failed so far this year to match their 1959 earnings records.

### Happier Prospects

Fortunately for many shareholders, the dividend picture is not universally black. Companies in many defensive fields are doing well this year and appear assured of reasonably good earnings in 1961. The electric utility industry will provide a large number of dividend increases this year, while many other companies closely allied to basic consumer demand will be in a position to hand out extras.

**Gillette** has enjoyed enormous success this year with its new "super" blade and an expanding drug and cosmetic line. The stock has been a star performer in an otherwise drab market reflecting substantial earnings improvement. In the first six months per share net rose to $1.84 from $1.52 and full year results should top $3.75. The regular $2.50 dividend therefore is adequately covered, while there should be enough left over to again pay an extra at Christmas time.

**American Home Products,** one of the nation's most successful merchandisers of ethical and proprietary drug products also shows evidence of continuing its extraordinary earnings and dividend record. The earnings increase in the first half was small, but indicated rising profit margins at a time when most of the industry was feeling a pinch. With earnings expected to rise to at least $6.70 per share, the company will probably pay stockholders something in addition to the regular $4.00 dividend.

**McGraw-Hill** also increased its earnings in the first half of the year, but the chance for an extra rests more firmly on the rising demand for textbooks as record numbers of students enter the nation's schools. The company is riding the crest of a population wave now, and should continue to prosper.

### Scattered Good Prospects

Outside of the few companies that have again and again demonstrated their ability to profit in consumer markets, there are not many companies that offer a certainty of year end extras. However, several are strong enough to make it a good bet that they will pay extras.

**Texaco,** for example, despite the poor showing of the oil industry this year, has managed to better last year's performance so far in 1960. The $2.93 earned in the first half indicates at least $6.00 for the year compared to $5.85 a year ago. It is a good possibility, therefore, that the company will again disperse something extra to shareholders either in cash, stock or both.

**Minneapolis-Honeywell,** on the other hand suffered a slight decline in earnings in the opening half of the year, but there is still a good chance that full year earnings will top last year's $4.20. Honeywell is being hurt this year by the enormous expenses involved in its computer program, but still earnings will remain at high levels. It is probable, therefore, that directors will seek to maintain the company's exceptional growth record by again supplementing the regular $2.00 dividend with an extra.

**Cutler-Hammer's** earnings will take a sharper dip than Honeywell's, possibly to $4.00 per share from last year's $4.31. Nevertheless, the company's enormous cash flow and large cash reserves, combined with a traditionally liberal dividend policy, makes it

## Stocks Where Year-End Extra Payments Are In Doubt

| | 1959 Net Earnings Per Share | 1st 6 Months Net Earnings Per Share 1959 | 1960 | 1960 Estimated Net Per Share | 1959 Total Div. Payment | Amount of Extra Div. Paid 1959 Year-End | 1960 Indicated Regular Rate * | Recent Price | Price Range 1959-60 |
|---|---|---|---|---|---|---|---|---|---|
| Alpha Portland Cement | $3.96 | $1.40 | $1.00 | $2.90 | $1.75[1] | $.25[2] | $1.80 | 29 | 39⅛- 28⅜ |
| American Enka Corp. | 4.31 | 2.64 | .51 | 1.50 | 1.80 | .75 | .60 | 18 | 46 - 18 |
| American Rad. & S. S. | 1.80 | .71 | .47 | 1.50 | .75 | .10 | .80 | 13 | 18¾- 12 |
| Anaconda Wire & Cable | 3.58 | 2.49 | .74 | 1.70 | 1.75 | 1.00 | 1.00 | 36 | 60¾- 35¾ |
| Blaw-Knox | 3.12 | 2.48 | 1.45 | 2.75 | 1.40[1] | 2½%[3] | 1.40 | 30 | 56¾- 28½ |
| Bridgeport Brass | 4.40 | 2.43 | .98 | 2.25 | 1.75 | .12½ | 1.40 | 24 | 44½- 24 |
| Carey (Philip) Mfg. Co. | 3.26 | 1.70 | 1.05 | 2.20 | 1.70 | .10 | 1.60 | 23 | 43¾- 23 |
| Clark Equipment | 2.61 | 1.41 | .84 | 2.00 | 1.12½ | .12½ | 1.20 | 30 | 48¼- 28¾ |
| Deere & Co. | 7.23 | 5.99[4] | 1.33[4] | 2.45 | 2.37[1] | 3%[3] | 2.00 | 44 | 68¼- 38⅛ |
| Eastern Air Lines | 2.24 | 1.17 | d1.23 | 1.75 | 1.00[1] | 2%[3] | 1.00 | 24 | 46⅛- 23½ |
| Libbey-Owens-Ford Glass | 5.13 | 3.16 | 2.43 | 4.00 | 2.55 | .50 | 2.40 | 50 | 77½- 47½ |
| Mack Trucks | 5.71 | 3.04 | 2.31 | 4.25 | 1.80[1] | 5%[3] | 1.80 | 31 | 52⅝- 31 |
| Maytag Co. | 3.92 | 2.02 | 1.73 | 3.40 | 2.10 | .50 | 2.00 | 33 | 45⅝- 22¾ |
| Rayonier Inc. | 2.35 | 1.20 | 1.03 | 1.75 | .60[1] | 3%[3] | .80 | 17 | 30⅜- 16⅜ |
| Robertshaw-Fulton Controls | 3.35 | 1.85 | 1.01 | 2.25 | 1.50[1] | 2%[3] | 1.50 | 36 | 59¾- 31⅝ |
| Ruberoid Co. | 3.48 | 1.54 | .96 | 2.75 | 2.20 | .20 | 2.00 | 33 | 47½- 33 |
| Stokely-Van Camp. | 2.21[5] | — | — | 1.46[5] | .60[1] | 10%[3] | .60 | 14 | 21½- 14 |
| Timken Roller Bearing | 5.60 | 2.93 | 2.89 | 5.25 | 2.40 | .30 | 2.40 | 49 | 69¾- 45⅛ |
| Universal-Cyclops Steel | 5.24 | 3.16 | 1.66 | 3.25 | 1.00[1] | 3%[3] | 1.20 | 32 | 53½- 31⅝ |
| Wagner Electric | 3.22 | 1.82 | 1.23 | 2.50 | 3.00[1] | .75 | 1.20 | 28 | 48½- 23⅜ |

*—Estimated total 1960 payments, but excluding possible year-end declarations.
d—Deficit.
1—Plus stock.
2—Plus 2% in stock.
3—Paid in stock.
4—1st 9 months.
5—Year-ended May 31.

probable that a 50¢ extra will again be added to the regular $2.00 payment.

Cutler-Hammer, moreover, has managed to stabilize its earnings since acquiring the highly successful Airborne Instruments Division. The reduced likelihood, therefore, of sharp earnings fluctuations bodes well for dividend payments.

Similarly, **Sears-Roebuck** may well continue its extra payments even though earnings dipped slightly in the first half of this year. Moreover, its major expansion has been completed, freeing cash for the payment of dividends. Consequently, even if full year earnings fail to match last year's penny for penny, there is a good chance that the 25¢ extra paid last year will be repeated.

American Chicle, the second largest manufacturer of chewing gum, is in the enviable position of establishing a new peak in earnings in 1960, in all probability, for the ninth consecutive year. The company is continuing its successful program of product diversification through research, with emphasis on the "premium price" field. Items in this category sell for more than the customary five-cent package of gum, thus permitting wider profit margins. Such items have been responsible in great part, for its growth in earnings in recent years.

While wholesale chewing gum prices were increased recently in the industry, the first advance in over three decades, American Chicle is spending substantially more on advertising in the current year and this will cancel out much of the benefit of higher prices. Nevertheless. indications point to 1960 earnings of around $3.45 per share, permitting payment of at least $2.00 in dividends again, including a 40 cent extra as paid last year.

### Other Interesting Possibilities

The reader cannot fail to notice that the most likely candidates for favorable dividend actions this year are companies that stand near the top of the quality list. Thus, **American Tobacco,** despite its lack of earnings progress this year, is also a fair bet to pay its usual extra. **Eastman Kodak** and **Corning Glass** are in the same category.

But there are others that hold out promise. **Homestake Mining** for instance stands to benefit substantially from the large outflow of gold from this country in recent months. The price of free gold in markets abroad has risen to the highest level in years and may thus cause a further drain on our reserves. Homestake, therefore may find the domestic demand for its output picking up in the next year or so.

In addition, recessionary conditions usually lower labor costs for gold miners, indicating that even without a rise in the domestic demand for gold, profit margins may expand. Under the circumstances, an extra appears probable.

### Summary

The number of increases in dividend payments has been slowing down with each passing quarter this year. Moreover, the number of cuts and omissions has been on the rise. Dividend-conscious investors, therefore, must appraise their holdings carefully in the light of the decidedly less buoyant business atmosphere that lies ahead.

This is especially important today, when alternate forms of investment, such as bonds, offer equally small yields. There was a time when investors worried about the future could assure their income by switching from stocks to bonds. Since there is little benefit to such a switch today, it is even more vital that steps be taken to protect their income from common stocks. END


*Timely and Important*

# OIL COMPANIES GIRD TO MEET CHALLENGE FOR BROAD CONCESSIONS

## *From Middle East and Venezuela*

By DILLARD SPRIGGS

- ► **Organization of Petroleum Exporting Countries (OPEC) meeting at Baghdad, plans new well organized effort to recast role for oil companies . . . with profit-sharing aspirations only one of their goals**
- ► **Where new Middle East demands present serious challenge to international oil companies — and their stake in the Middle East . . . steps taken to cope with the situation**

MORE and more in recent years, the conduct of petroleum operations abroad has required something greater than the mere technical skill to produce and process oil. It also has demanded a high degree of political acumen, diplomatic skill, and shrewd economic bargaining. Otherwise, profits obtained from successful ventures might well be lost by parliamentary action, governmental decree, or a slip at the conference table.

Today, the challenge to the international oil companies from the governments of the Middle East oil-producing countries and from Venezuela, the leading oil-producer in the Western Hemisphere outside the United States, appears to be greater than ever before. From Caracas to Mecca, governmental pressure for higher revenues, stable prices, and for a greater voice in managerial decisions is increasingly insistent. In recent weeks, the leading Arab oil-producing countries, together with Venezuela, plotted a common strategy for attaining these goals. In an historic meeting at Baghdad, just concluded, they formed the Organization of Petroleum Exporting Countries (OPEC) to coordinate policies and aims.

**This action appears to be only a beginning to a continuing stream of well-organized, inter-governmental efforts to exact concessions from Western oil companies. Next month in Beirut, Lebanon, the Second Arab Petroleum Congress will be convened.** This meeting, like the first one held in Cairo during April 1959, will provide a well-publicized forum for the demands and dreams of Middle East oil officials. Right now, negotiations are going on between the Iraq Petroleum Co. and the State of Iraq concerning a variety of issues the government has raised with the company. Three months from now, in January 1961, OPEC is scheduled to meet again in Caracas, Venezuela.

### Arab Aspirations

When the Arab Petroleum Congress convenes, attention will focus on the Middle East's over-riding

concern—how to maintain income from the oil companies at a high and rising rate? Finance ministers and budgetary authorities were shocked early in August when Middle East crude oil prices were reduced, at the initiation of Standard Oil Co. of N. J., by an average of close to 10¢ per barrel. Almost instinctively, these authorities and other Middle East officials cried that the oil companies should not change prices without prior consultation with government officials.

At the Congress held last year, a resolution demanding such consultation was passed. Arab oil officials now are smarting under the feeling that their appeal was ignored. The issue is a crucial one because tax revenues in the Middle East are calculated on the basis of the posted price for crude oil sales and not on the basis of actual sales prices. The higher the price, the higher the revenues are to the Middle East countries under the 50-50 profit sharing arrangements that govern oil company taxation. In a period of worldwide oil surplus like the present, when considerable quantities of oil are sold at discount prices, it is in the interest of the oil companies that posted prices mirror actual marketing conditions as closely as possible.

**Price Demands—Two main tactics have been adopted by the producing countries in an attempt to shore up world prices. One involves direct pressure on the companies concerned through official demands and public pronouncements. In Venezuela, for example, the Council of Ministers has resolved that "abnormal discounts in sales of hydrocarbons constitute an economic waste and could provoke the deterioration of petroleum prices in the international market; therefore," the resolution went on, "the government will order the suspension of that production which concessionaires destine for sales at abnormal discounts . . ."**

The principal reason for the formation of OPEC—which includes Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela—was the maintenance of world crude oil prices. The first substantive resolution issued by the Organization said, "the members will require that the petroleum companies maintain their prices, stable and free of any unnecessary fluctuation; that the members will try by all means at their disposal to reestablish current prices at the levels prevalent before the reductions; that they will assure that in case some new circumstance arises which, according to the petroleum companies, requires price modifications, said companies should enter into consultations with the member or members affected in order to fully explain the circumstances."

### Call for International Prorationing

In addition to these direct appeals for high prices, some of the producing countries have, for some time, advanced schemes for international prorationing of crude oil production. **Both Sheikh Abdullah Tariki, the Petroleum Minister of Saudi Arabia, and Perez Alfonso, the Minister of Mines and Hydrocarbons of Venezuela, have called for controls over crude oil production, organized and supervised by the leading oil-producing countries. Their idea is a relatively simple one, namely, the restriction of production to demand, modeled after the system of interstate oil prorationing practiced in the United States.**

However, the execution of such a scheme would involve complex problems of establishing yardsticks for allocating production among all of the oil-producing countries in the world. A major question exists, for example, as to whether new exporting areas like Algeria and Libya would want to limit production in the same manner as the more mature Middle East producing countries.

The second substantive resolution adopted at the OPEC meeting dealt with the possibility of organizing a prorationing scheme. It said, "The members will study and formulate a system to assure the stabilization of prices, among other means, by the regulation of production with due attention to the interests of the producing and consuming nations, and to the necessity of assuring a stable income to the producing countries—an efficient, economic and regular supply of this source of energy to the consuming nations, and a just return on their capital to those who invest in the petroleum industry."

**The Place of the Middle East in the Free World Petroleum Industry**
(1959 Data)

| | Middle East | Free World* | Middle East As % of Free World |
|---|---|---|---|
| Production (Thous. of bbls. daily) | 4,600 | 16,625 | 28 |
| Reserves (Billion bbls) | 145 | 230 | 63 |
| Refinery Runs (Thous. of bbls. daily) | 1,045 | 16,690 | 6 |
| Consumption (Thous. of bbls. daily) | 480 | 17,765 | 3 |

*Including Middle East

### Altering the 50-50 Profit Split

If neither of these attempts to bolster government income from the oil industry are successful, then the various countries can be expected to devote greater attention to increasing their tax rates above the present 50 per cent. The recent reductions in crude oil prices in the Middle East have inevitably again stirred up arguments about a larger share than 50 per cent. The most practical restraint on a clamor for increase in the government's share of profits is the example provided by Venezuela. **That country re-arranged the profits split with oil companies to something near a 65-35 ratio late in 1958, but since then the government's actual revenues from the oil industry have declined perceptibly.**

### A Voice in Management

Another major topic of discussion at the forthcoming Arab Congress will undoubtedly involve demands of the Middle East countries for a greater voice in the every day management of oil concessions. Behind this appeal lies a long-term desire of these countries to establish and operate their own oil companies. The most forceful exponent of this dream is again Shiekh Abdullah Tariki. In a recent newspaper interview, he said: **"I would like to lay down an extremely important principle; namely that we are determined to make the oil industry Arab and to entrust it to Arab hands. If we are unsuccessful in doing so this year, we will succeed in future years with God's help. We are determined that the citizens of this country shall fill all jobs from the post of director of the company to that of the most junior worker. This can be accomplished through a development program, which we are now working to carry out."**

TABLE I

**Government Income Derived From Oil Operations In the Middle East**

(million dollars)

| | 1959 | 1958 | 1957 | 1956 |
|---|---|---|---|---|
| Total | 1,236 | 1,238 | 1,023 | 968 |
| Bahrein | 13 | 12 | 10 | 10 |
| Iran | 258 | 272a | 213 | 153 |
| Iraq | 252 | 237b | 144d | 193 |
| Kuwait | 345 | 354 | 308 | 293 |
| Qatar | 53 | 61c | 45 | 36 |
| Saudi-Arabia | 315 | 302 | 303 | 283 |

a. Includes $25 million bonus payment.
b. Includes $12.6 million in settlement of previous claims.
c. Includes $3.3 million in settlement of previous claims.
d. Includes $7 million in settlement of previous claims.

TABLE II

**Importance of Middle East Crude Oil Production to International Oil Companies In 1959**

(Thousands of Barrels Daily)

| | Midle East | Total | Middle East As % of Total |
|---|---|---|---|
| British Petroleum | 1,275.5 | 1,301.9 | 97.9 |
| Royal Dutch Shell | 317.0 | 752.0 | 18.1 |
| Gulf | 780.8 | 1,304.2 | 59.9 |
| Socony Mobil | 270.3 | 669.4 | 40.4 |
| Standard of Calif. | 402.9 | 830.4 | 48.5 |
| Standard of N. J. | 515.0 | 2,146.0 | 24.0 |
| Texaco | 403.1 | 1,110.0 | 36.3 |

### Negotiations in Iraq

Many of the Arabs' aspirations are pointed up in the current negotiation between the government of Iraq and the **Iraq Petroleum Co.** This company, which operates a vast oil concession in Iraq, is owned 23¾ per cent each by **British Petroleum, Royal Dutch-Shell,** and **Compagnie Francaise des Petroles;** 11⅞ths each by **Standard Oil of New Jersey** and **Socony Mobil;** and 5 percent by Gulbenkian interests.

The whole question of posted prices and their determination undoubtedly has been raised during the negotiations. Another point of discussion between the company and the government is believed to concern the calculation of the 50-50 profits sharing rate. It has been reported, for example, that issues have been raised about the way in which certain expenses, including drilling costs and "dead rents," are to be taken into account in calculating taxable profits.

The government has pressed forward with its demands that Iraq nationals should be added to the employment rolls of the company. Finally, Iraq has requested that the company give up a substantial portion of the non-productive acreage now held under concession. The government obviously hopes to put this acreage up for auction to other companies or to develop it itself. The company apparently is willing to relinquish as much as one-half of its acreage, but there is an issue over the areas to be relinquished and also over the manner in which the areas are to be selected.

After a suspension of the negotiations to permit the representatives of the Iraq Petroleum Co. to consult with their share-owners, negotiations were resumed in Iraq on September 21. **The negotiations are being followed closely by other governments in the Middle East and it can be taken for granted that any upward adjustment in prices or revenues that may occur in Iraq will quickly be demanded by other countries in the area.**

### Position of the Oil Companies

The major international oil companies have long been aware of the rising demands for greater revenues in the Middle East. Indeed this awareness undoubtedly had a great deal to do with the way in which the recent cuts in Middle East crude oil prices were timed. The timing of that decision for early August appears to have been based, first, on an appraisal of the reduction's impact on Middle East government revenues and, secondly, on an assessment of developing relationships between the industry and the governments of the various producing countries.

**Higher Revenues**— It seems clear that in spite of the price reduction, total oil revenues received by the Middle East for the full year 1960 will be somewhat higher than those received in 1959. **Industry estimates place this increase on the order of $80 to $100 million, boosting total revenues to more than $1.3 billion in 1960.**

Revenues received by the various producing countries in previous years are shown in Table I. The reason that revenues will not decline is that the price cut will affect only the last five months of 1960 and because the volume of Middle East crude oil production is running about 13 per cent higher than in 1959.

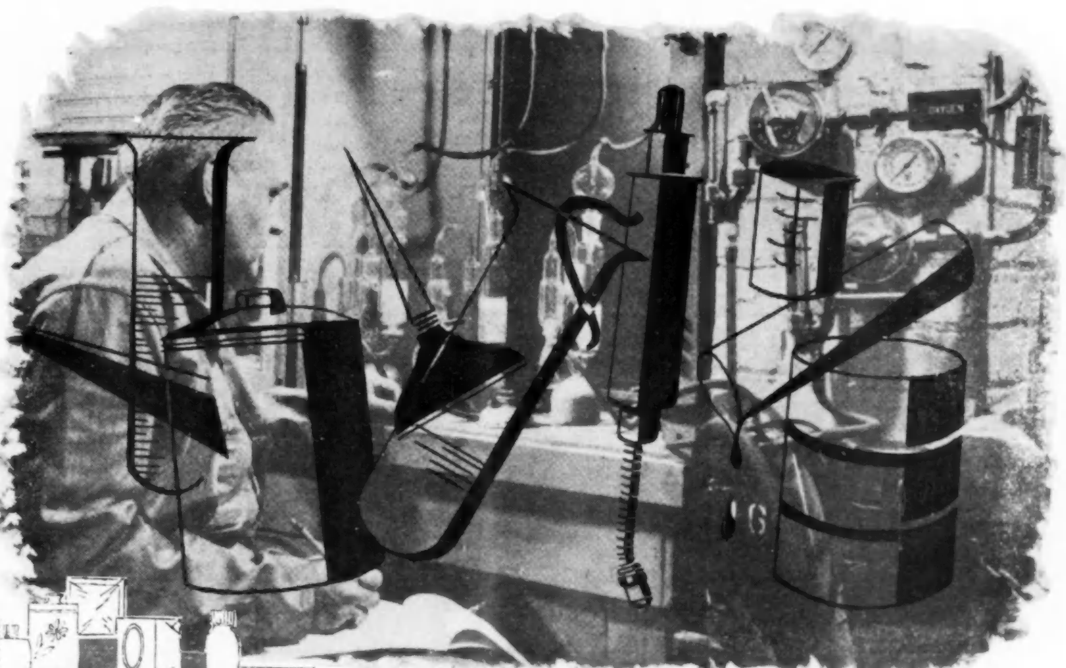
**Skillful Timing**—The adroitness of the timing of the price decrease is pointed up by a brief look at what would have happened if, instead of lowering prices in August, the cut had been delayed until late this year or early 1961. **Under such circumstances, revenues obtained by the Middle East governments during 1960 would have risen to quite high levels, so pronounced have been this year's gains in sales volume. This would have represented a new base from which the Arab countries would undoubtedly expect and ask for still further advances in income in future years.**

This situation reflects the likelihood that the gain in Middle East production during 1961 will not be as pronounced as in 1960.

For one thing, some slowing down in economic activity in Western Europe, the major market for Middle East oil, appears to be taking shape. For another, more oil from North Africa will be finding outlets in European markets formerly served by Middle East oil. In these circumstances, the clamor from the Arab oil-producing states could be expected to rise to an all-time crescendo.

**Instead, the oil companies can now point to the fact that the revenues the Middle East governments receive this year will be greater than last year's receipts. Further, they will be able to indicate that 1961 revenues will probably expand again, if crude oil production rises very much at all. This represents a very important counter-argument to all of the Middle East's demands for higher incomes.**

It also appears to have *(Please turn to page 101)*



# *Calling Attention . . .*
# TO CHANGING PATTERNS IN THE DRUG INDUSTRY

- **Current outlook for legislation as the result of Senator Kefauver's investigation**
- **Underlying growth factors such as proprietary and new product development — expanding research programs — great broadening of foreign market — which companies to the fore**
- **Varying outlook for individual companies**

**By ROBERT L. NEWTON**

THE drug industry is a strange blend of Madison Avenue advertising and scientific medical research; of large sales organizations and the ethical restraint necessary to make the sale; of wonder drugs, patent medicines and glamour in a bottle; of men of vision and dedication to the advancement of medicine and those with little conscience for the future. It is an industry of rapid and dramatic changes; a crisis is almost an every day occurrence and calamity all too common. It is not surprising that government investigators have found many things to criticize and, of course, many things to praise in the industry. For the investor this pattern of rapid change offers both opportunities for large profits and the risks of serious disappointment. The conservative long-term investor seeks to average out these risks by holding stocks of the larger, broadly diversified companies in the industry.

It is unfortunate that investment merit and public regard for individual drug companies do not always go hand in hand. Certain industry leaders have chosen from time to time to subordinate the objective of profit in order to serve an urgent public need. One can only hope that the government will recognize such sacrifices and stockholders will accept the wisdom of such decisions.

### Concentration of Proprietary Products

A little more than two-thirds of the drug industry (at the manufacturers' level) consists of products that require a prescription or those that are promoted primarily to the physician. In the post-war period this ethical drug segment has grown more rapidly than the industry as a whole, largely be-

## Statistical Position of Leading Drug Companies

| | 1st 6 Months: Net Sales 1959 (Millions) | Net Sales 1960 (Millions) | Net Profit Margin 1959 % | Net Profit Margin 1960 % | Net Per Share 1959 | Net Per Share 1960 | Full Year: Earned Per Share 1958 | Earned Per Share 1959 | Cash Earn. Per Share 1959 | Indic. 1960 Div. Per Share * | Price Range 1959-60 | Recent Price | Div. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ABBOTT LABORATORIES .......... W.C. (mil.) '58–$37.9; '59–$38.0 | $58.4 | $62.2 | 9.5% | 9.2% | $1.42 | $1.48 | $3.32 | $3.32 | $4.21 | $1.90 | 84¾- 52¾ | 57 | 3.3% |
| ALLIED LABORATORIES ............ W.C. (mil.) '58–$13.7; '59–$14.2 | 15.4 | 13.5 | 7.5 | 5.0 | 1.47 | .86 | 2.64 | 2.52 | 3.10 | 1.30 | 64½- 43⅛ | 49 | 2.6 |
| AMER. HOME PRODUCTS .......... W.C. (mil.) '58–$79.4; '59–$87.4 | 213.5 | 232.0 | 10.8 | 10.4 | 3.03 | 3.15 | 5.53 | 6.05 | 6.55 | 4.30 | 198½-122 | 180 | 2.3 |
| BRISTOL MYERS ......................... W.C. (mil.) '58–$26.3; '59–$25.1 | N.A. | N.A. | N.A. | N.A. | .83 | 1.02 | 1.46 | 1.70 | 2.16 | 1.00 | 65⅝- 22⅝ | 54 | 1.8 |
| CARTER PRODUCTS .................... W.C. (mil.) '58–$13.6; '59–$16.2 | 15.2[3] | 15.0[3] | 17.4 | 14.4 | 1.03[3] | .83[3] | 2.72[1] | 3.44[2] | N.A. | 1.25 | 89½- 38¾ | 45 | 2.7 |
| JOHNSON & JOHNSON ........... W.C. (mil.) '58–$70.5; '59–$77.8 | 149.9 | 154.2 | 5.0 | 5.1 | 1.30 | 1.34 | 2.38 | 2.61 | 4.24 | 1.00 | 71½- 49⅛ | 63 | 1.5 |
| LEHN & FINK ............................. W.C. (mil.) '58–$6.9; '59–$7.7 | 32.3[4] | 34.4[4] | 4.0 | 4.2 | 3.94[4] | 4.36[4] | 3.26 | 3.94 | 4.67 | 2.00 | 64 - 36 | 60 | 3.3 |
| LILLY (ELI) & CO. "B" ................ W.C. (mil.) '58–$105.7; '59–$104.1 | 94.0 | 91.1 | 13.8 | 11.9 | 1.50 | 1.36 | 2.97 | 2.93 | 3.60 | 2.50 | 98 - 68½ | 74 | 3.3 |
| Mc KESSON & ROBBINS ............ W.C. (mil.) '58–$106.7; '59–$113.3 | 160.9[3] | 163.6[3] | 1.6 | 1.2 | .66[3] | .50[3] | 2.85[1] | 3.08[2] | 3.44 | 1.50 | 51¼- 32 | 39 | 3.8 |
| MEAD JOHNSON & CO. ........... W.C. (mil.) '58–$14.5; '59–$16.6 | 30.0 | 44.2 | 9.6 | 11.5 | 1.58 | 2.78 | 2.60 | 3.02 | 3.92 | 1.20 | 133 - 53 | 115 | 1.0 |
| MERCK & CO. ............................. W.C. (mil.) '58–$84.1; '59–$96.0 | 110.7 | 111.4 | 14.3 | 13.2 | 1.48 | 1.37 | 2.53 | 2.78 | 3.69 | 1.80 | 96½- 67 | 79 | 2.2 |
| NORWICH PHARMACAL ........... W.C. (mil.) '58–$12.2; '59–$14.3 | 18.0 | 21.3 | 11.3 | 11.4 | .54 | .65 | 1.14 | 1.35 | 1.40 | .80 | 59 - 23¾ | 39 | 2.0 |

*—Estimate of indicated dividend rate.
N.A.—Not available.
1—Year ended March 31, 1959.
2—Year ended March 31, 1960.
3—Quarter ended June 30.
4—Year ended June 30.

**Abbott Laboratories:** Good sales growth but pressure on profit margins has kept earnings at same level for the past four years. Stock offers only modest yield from well protected dividends. Expanding research program could eventually lead to improved earnings trend. **A2**

**Allied Laboratories:** Major producer of human and veterinary vaccines with line of specialties. Merger with Dow Chemical Co. to be voted on November 30, with two-thirds share of Dow for each Allied share. **B3**

**American Home Products:** One of the largest drug companies, as well as important producer of cosmetics, food and household products. Excellent record of growth. Broad product base reduces dependence on any one major line. Earnings have increased each year since 1952, including the first half of 1960. **A1**

**Bristol-Myers:** Successful producer of proprietary drugs and toiletries. Expanding position in ethical drug field, including antibiotics. Acquisition of Clairol (hair colorings) contributed to rise in sales and earnings in first 6 months of this year. **B1**

**Carter Products:** Record of growth in volume and profits due largely to success in marketing mild tranquilizers. Smaller position in toiletries and proprietaries. Dependence on tranquilizers leaves company somewhat vulnerable to introduction of competitive products. Recent earnings lower. **C3**

**Johnson & Johnson:** Largest producer of surgical dressings and related items. Products in stable demand and relatively free from competitive risks. Recent increased emphasis on ethical drugs may well improve company's steady but moderate long term growth pattern. **A1**

**Lehn & Fink:** Medium-size manufacturer of cosmetics, toiletries and disinfectants, including Dorothy Gray, Hinds and Lysol. Expanding in disinfectants. Relatively small common stock base. **C1**

**Lilly (Eli):** One of the largest domestic producers and marketers of ethical drugs, including antibiotics and polio vaccine. Earnings and growth pattern somewhat erratic reflecting changing fortunes of new product development and expanding research programs. **A3**

**McKesson & Robbins:** Leading U. S. drug wholesaler expanding position in distribution of heavy and fine chemicals. Past record of moderate growth. Above-average yield. **B2**

**Mead Johnson:** Major producer of nutritional products, particularly infant formula foods. Success of new weight control aid, Metrecal, main reason for recent sharp gain in volume and profits. **B1**

**Merck:** Demand for drug specialties, such as hormones and diuretics, has more than offset declining margins in vitamins and bulk pharmaceuticals, resulting in relatively stable earnings. Company is believed to have the largest industry sponsored research program. **A2**

**Norwich Pharmacal:** Smaller producer of proprietary and ethical drugs. Products include well-known brands, such as Pepto-Bismol and Unguentine. Excellent growth record. **B1**

**RATINGS:** A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

## Statistical Position of Leading Drug Companies—(Continued)

| | 1st 6 months: Net Sales 1959 (Millions) | Net Sales 1960 (Millions) | Net Profit Margin 1959 % | Net Profit Margin 1960 % | Net Per Share 1959 | Net Per Share 1960 | Full Year: Earned Per Share 1958 | Earned Per Share 1959 | Cash Earn. Per Share 1959 | Indic. 1960 Div. Per Share * | Price Range 1959-60 | Recent Price | Div. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PARKE DAVIS & CO. .................. W.C. (mil.) '58–$73.4; '59–$77.5 | $90.8 | $99.0 | 15.1% | 15.2% | $ .93 | $1.02 | $1.89 | $2.09 | $2.37 | $1.40 | 51⅛- 36⅜ | 41 | 3.4% |
| PFIZER (CHAS.) & CO. .............. W.C. (mil.) '58–$69.3; '59–$79.4 | 122.9 | 136.8 | 9.2 | 9.4 | .69 | .78 | 1.48 | 1.51 | 1.96 | .80 | 45¼- 26⅜ | 27 | 2.9 |
| PLOUGH, INC. ............................ W.C. (mil.) '58–$9.2; '59–$10.1 | 17.0 | 23.5 | 7.3 | 6.9 | 1.02 | 1.23 | 1.88 | 2.10 | 2.54 | .90 | 71½- 34¼ | 60 | 1.5 |
| REXALL DRUG & CHEMICAL ..... W.C. (mil.) '58–$54.7; '59–$55.4 | 97.7 | 112.3 | 3.3 | 3.2 | .90 | .92 | 1.83 | 2.28 | 3.17 | .50[1] | 56⅜- 30¾ | 42 | 1.1 |
| SCHERING CORP. ...................... W.C. (mil.) '58–$39.1; '59–$43.0 | 39.0 | 42.6 | 13.2 | 9.3 | 1.25 | .94 | 3.05 | 2.87 | 3.56 | 1.40 | 82 - 49⅜ | 51 | 2.7 |
| SMITH KLINE & FRENCH LAB. ... W.C. (mil.) '58–$25.9; '59–$30.7 | 66.8 | 72.8 | 19.2 | 16.6 | .89 | .83 | 1.43 | 1.72 | 1.88 | 1.25 | 64¾- 42⅝ | 44 | 2.8 |
| STERLING DRUG ......................... W.C. (mil.) '58–$54.1; '59–$54.1 | 102.8 | 110.6 | 9.2 | 9.4 | 1.20 | 1.32 | 2.42 | 2.65 | 3.03 | 1.80 | 66½- 43 | 59 | 3.0 |
| SYNTEX CORP. .......................... W.C. (mil.) '58–$3.4; '59–$3.3 | 3.2[5] | 3.2[5] | d4.2 | 4.9 | d.13[5] | .06[5] | .02[4] | d.48[4] | N.A. | — | 42½- 13 | 31 | — |
| UPJOHN CO. ............................. W.C. (mil.) '58–$52.6; '59–$58.4 | 72.2 | 76.4 | 13.6 | 13.7 | .70 | .75 | 1.43 | 1.65 | 1.97 | .72 | 62⅝- 40 | 50 | 1.4 |
| VICK CHEMICAL ......................... W.C. (mil.) '58–$41.6; '59–$50.6 | 115.2[2] | 132.0[3] | 10.5 | 10.8 | 2.71[2] | 3.20[3] | 2.71[2] | 3.20[3] | 3.65[3] | 1.00 | 124½- 42 | 99 | 1.0 |
| WARNER-LAMBERT PHARM. CO. W.C. (mil.) '58–$44.3; '59–$46.9 | 87.6 | 97.9 | 7.6 | 7.6 | 1.25 | 1.40 | 2.82 | 3.06 | 3.67 | 1.65 | 81¼- 44½ | 67 | 2.4 |

*—Estimate of indicated dividend rate.
d—Deficit.
N.A.—Not available.

1—Plus stock.
2—Year ended June 30, 1959.
3—Year ended June 30, 1960.

4—Years ended July 31.
5—6 months ended January 31.

**Parke, Davis:** Leading and long-established full-line ethical drug company. Most important product is broad spectrum antibiotic, Chloromycetin. This is somewhat controversial, but has enjoyed rising demand in recent years. Company has good longer term growth record. **A1**

**Pfizer:** Much of recent growth has come from rapidily expanding foreign business. A major antibiotic producer which over the years has been moving toward a full product line. **B1**

**Plough:** Rapid earnings rise of this smaller company has reflected active acquisition program in the toiletries and proprietary drug fields. Company also owns radio stations and produces household products. **C1**

**Rexall:** Large producer of pharmaceuticals and toiletries. Better earnings in recent years due largely to eliminating marginal stores. Growing position in ethical drugs and plastic wares. Joint polyethylene venture with El Paso Natural Gas. **B1**

**Schering:** Company is attempting to broaden product base and sustain position in hormones, by far the largest product group. Competitive products and higher costs have caused earnings to decline, since 1957. **B3**

**Smith, Kline & French:** Major producer of mental health drugs and tranquilizers. Past record of earnings growth, but recently under pressure from competitive product introductions. **B3**

**Sterling Drug:** Important producer of proprietary and ethical drugs including Bayer Aspirin. Strong position in foreign markets. Good record of moderate growth in sales and earnings. New sewage disposal system has promise. **B1**

**Syntex:** Producer of bulk steroid hormone intermediates. Conducting research program with Eli Lilly. Earnings record has been unimpressive. Stock is highly speculative. **C3**

**Upjohn:** Full-line drug house with excellent record of growth. Important in ethical drugs, including antibiotics, hormones and nutritional products. Company has enjoyed one of the best earnings records in industry, due largely to successful research program. **A1**

**Vick:** Name to be changed to Richardson-Merrill, Inc. Large producer of proprietary cold remedies with growing position in ethiral and veterinary drugs. Record of growth good. **B1**

**Warner-Lambert:** Primarily a producer of proprietary drugs, toiletries and cosmetics, with a growing ethical division. Merger with Minnesota Mining proposed, subject to stockolders approval, on basis of 1.1 shares of Minnesota for each share of Warner. **B1**

**RATINGS:** **A—Best grade.** **B—Good grade.** **C—Speculative.** **D—Unattractive.** **1—Improved earnings trend.** **2—Sustained earnings trend.** **3—Earnings up from the lows.** **4—Lower earnings trend.**

cause of the many important new products that have been developed. Manufacturers of proprietary products (sold without a prescription and advertised to the public) have been strengthened by frequent mergers and acquisitions that have served to concentrate such products within the major publicly owned companies. This has had the effect of reinforcing the earnings and competitive position of these companies; more importantly it has permitted broad scale national advertising campaigns so that the full market potentialities of a successful product could be realized. Listerine's explosive growth after its acquisition by **Warner-Lambert** is but one of many examples. To a more limited degree some cosmetic products have added dramatically to the growth of certain drug companies. **Bristol Myer's** highly successful Clairol line of hair coloring products (acquired in 1959) is perhaps the best recent example.

### Importance of Foreign Operations

The rapid growth of domestic drug sales has been exceeded by expanding foreign operations of U.S. companies; all signs point toward a continuation of this trend. **Pfizer,** one of the largest marketers abroad, estimates that within 2 to 3 years 60% of its sales and earnings will be from outside the United States. Nearly all drug companies are investing heavily abroad in manufacturing and distribution facilities. Among those companies that are the largest abroad the products offered by the foreign affiliates frequently differ markedly from the domestic sales pattern. Not only do product preferences and patent laws differ from country to country but also relative market position may vary substantially from that existing in the United States. For example, Pfizer and Warner-Lambert are relatively much stronger in many foreign markets than they are in certain U.S. markets and, as a result, have received licenses from other U.S. companies to sell certain drugs abroad.

Still another significant trend has developed in recent years, namely the pattern of rapidly increasing research expenditures. This has come about because of the many new biological and technical avenues that have been opened up; competitive factors in the industry, the necessity of maintaining the ratio of privately financed spending to the rapidly climbing Government appropriations, and, of course, to justify both to the public and the medical profession the present pattern of drug prices. These rising research costs have nevertheless tended to reduce profit margins of ethical drug companies. The highly effective "wonder drugs" developed since 1950 have, however, produced large profits which have, in turn, made further large-scale research programs possible. We have only begun to see the harvest from this investment.

### Government Investigations

The year-long investigation of the drug industry by Senator Kefauver has had a number of important results. First, it has shown that it is politically popular to be against "high" drug prices. Secondly, the Food and Drug Administration has become a major target and, as a result, this agency has placed a tight lid on a large percentage of the new products that have been recently submitted. While some relaxation of this ultra-conservative policy is likely after election, it is probable that approval of new products will be more difficult to secure in the future than it has been in the past. The most recent hearings have been concerned with the prices and safety of certain broad spectrum antibiotics.

From a legislative standpoint specific proposals were made in the spring by Senator Kefauver and Health-Education-Welfare Secretary Fleming. Recent statements by the Senator have indicated that he may seek even further restrictions on the industry. While it is still much too early to say what legislation will be passed, certain developments seem likely. *First,* the cost of new product approval and introduction will probably climb. A large, well-financed research organization will be needed even more to substantiate claims of efficacy and safety for every new drug. *Secondly,* further pressure will be brought to bear on drug prices, with the possibility of major efforts to reduce distribution costs. Here the wholesaler and retailer have as much to lose as the manufacturer. However, in view of the American public's obsession with the power of medical research, it seems unlikely that the patent structure and profits will be affected enough to cause a reduction in research spending by industry.

### Recent Price Reductions

Earnings of drug companies in the first quarter of 1960 were aided by a strong demand for antibiotics due to an unusually high incidence of respiratory infections. Such periods of high demand frequently result in over-stocking, and this was a factor in some poor second quarter results. About 75% of the larger drug manufacturers reported lower earnings in the second quarter as compared with the same period in 1959. Prices of many drug products continued to decline. Vitamin price reductions were felt particularly by **Merck.** The recent 15% tetracycline price reduction will affect primarily **American Cyanamid, Pfizer, Bristol Myers** and **Upjohn.** The percentage reduction varies somewhat from company to company depending upon distribution methods used. Both **Schering** and **Allied Labs.** have been victims of declines in their major product areas coupled with over-ambitious promotion campaigns to broaden the product base. Drug stock prices have reflected this disappointing earnings picture, apprehension as to possible legislation and, of course, weakness within the general market. Should a general business recession occur drug company earnings are likely, however, to hold up better than those of most industrial companies.

### Discussion of Individual Companies

**American Home Products** is believed to be the largest producer and marketer of drugs in the world. The approximately 420 million dollar sales in 1959 were divided between ethical drugs, 44%; proprietary drugs, 24%; foods, 15%; and household products, 17%. The company possesses an outstanding merchandising organization both in the United States and abroad. This strong merchandising position has frequently enabled the company to obtain licenses to market drugs produced by smaller companies. Equanil licensed from **Carter Products** is a case in point. While the company has felt some competition from recently introduced tranquilizers it should be remembered that American Home is probably less dependent on any one ethical drug than any other large company in this industry. American Home has had *(Please turn to page 102)*

# Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET, 120 Wall St., New York City 5, N.Y., *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

### Conservative Investor Seeks Counsel on Beech Aircraft and Standard Kollsman

*"I have written to you people only twice even though I have subscribed to your magazine for my Mother since 1955 and each time your advice has helped me immensely.*

*I handle my Mother's affairs and consider myself a conservative investor but somehow I got carried away (by public fever, I suspect) with two stocks and now I would certainly appreciate your advice in connection with these two.*

*I bought these two stocks because, in each case, I read several articles saying that earnings were up sharply and that 1960 would be a good year for both. But timing is really important when buying stocks and, of course, I realize now that I bought both of them too high. But if you tell me that you think each stock might recover by the end of the year, I will hang on to them.*

*The first one is 100 shares of Beech Aircraft at 78⅝ and the second one is 200 shares Standard Kollsman at 26⅝. I have wanted to buy another 100 shares of Beech to average off the price but I suspect that this is throwing good money after bad so I really do not know what to do at this point.*

*I will follow your advice as I did in September, 1958 when you told me to hold Thiokol, Goodyear and Jones & Laughlin in which I made a very nice profit in all three.*

*I want to thank you for your kind attention in this matter. Yours is a wonderful magazine."*

*A. T., Providence, R. I.*

Proper timing is as essential as proper selection. Both Beech Aircraft and Standard Kollsman have enjoyed substantial market advances this year from the lows and earnings have risen in each case this year, but unfortunately you purchased these stocks near the highs of 1960 and since then the market in general has reacted including these two issues. At this time, we suggest that you be guided on the market outlook by the advice appearing regularly in each issue by A. T. Miller.

**Beech Aircraft** is a major producer of single engine and twin engine planes for civilian, foreign and military customers and is engaged in subcontract work. The outlook for private planes is particularly bright, primarily because of the strong growth trend in this field. Profit and sales in the 9 months ended June 30, 1960 improved over the figures for the like 1959 period. Earnings climbed to $4.21 a share from $3.04 in the year earlier. Mrs. O. A. Beech, president predicted sales for the fiscal year would be about $100 million in view of the increase during the first 9 months. She said commercial sales rose 40% to $36,351,489 in the past three quarters from $25,840,819 a year ago, reflecting growth in the market for Beechcraft executive aircraft. Military sales rose 10% in the 9 months period. Stockholders have recently approved a 3 for 1 split of the shares, effective November 23 for holders of record on October 31. The new stock will pay quarterly dividends of 15¢ a share, compared with 40¢ on the present stock. However, we do not advise additional purchase as diversification of risk is a sound policy.

**Standard Kollsman** (formerly Standard Coil Products) is a prominent independent manufacturer of television tuners. Sales of instruments to the Armed Services account for a very substantial portion of its business. Planned acquisition of a majority interest in Casco Products Corp. would provide an entry into consumer markets. Net income has shown a good rise recently and executives of the Corporation are confident that further year to year gains will be experienced in coming months. However, the recent sharp spurt in price of the shares from a low of 12⅝ this year would appear to discount the earnings improvement over the near-term at least. Moreover, the stock has fluctuated fairly widely recently and has sold down from the highs in line with the general market reaction and this issue must be regarded as speculative. Earnings for the first half of 1960 were 69 cents per share against 34 cents in the like period last year. Full year 1959 earnings were 77 cents per share against 36 cents in 1958. This stock is too speculative for the conservative investor and therefore unsuitable, in our opinion, for your Mother. Disposal should be made on strength.

We are delighted that our pre-

*(Please turn to page 106)*


# FOR PROFIT AND INCOME

**Profits**

Third-quarter earnings reports in the industrial and trade fields will in most cases give stockholders little or nothing to cheer about. Year-to-year comparisons will be aided by absence of the steel strike which cut into the period's 1959 profits. But that is pretty well offset by this year's increasing pressure on operating margins. While unpublished, July-August results are known to have been mostly on the drab side. Unusual among manufacturers, Caterpillar Tractor, in the capital goods field, issues monthly reports which provide something of a general guide. Its August net income was down nearly 12% from a year ago, that for eight months through August down nearly 26%.

**Inside the Market**

Few stock groups have stood out on the upside in the recent weak market. Those which have either gained some ground or held up much better than the industrial list are principally beer brewers, confectionery, finance and small-loan issues, food brands, dairy products, banks, oils, electric utilities, tobaccos and variety stores. Groups currently weaker than the market include aluminum, auto parts, building materials, chemicals, coal, copper, drugs, electrical equipment, meat packing, metal fabricating, paper, rail equipment and steels.

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1960 | 1959 |
|---|---|---|---|
| Litton Industries, Inc. | Year July 31 | $1.75 | $1.62 |
| Minnesota Power & Light | 12 mos. Aug. 31 | 2.37 | 2.29 |
| American Electric Power | 12 mos. Aug. 31 | 2.53 | 2.37 |
| Quaker Oats Co. | Year June 30 | 3.40 | 3.29 |
| Firestone Tire & Rubber | 9 mos. July 31 | 1.74 | 1.69 |
| Socony Mobil Oil Co. | 6 mos. June 30 | 1.72 | 1.59 |
| Dresser Industries | Quar. July 31 | .54 | .41 |
| Vick Chemical | Year June 30 | 3.22 | 2.71 |
| Iowa-Illinois Gas & Elec. | 12 mos. July 31 | 2.65 | 2.43 |
| Aldens, Inc. | Quar. July 29 | .76 | .27 |

**Soft Stocks**

Individual stocks showing pronounced weakness are too numerous to permit more than partial listing. Some examples among the more prominent stocks are Allied Stores, American Can, Ampex, Bridgeport Brass, Consolidation Coal, duPont, International Harvester, Jones & Laughlin, Air Reduction, American Bank Note, Atlas Powder, Colgate-Palmolive, Dow Chemical, Ex-Cell-O, Goodyear, Kroger Company, Montgomery Ward, Oxford Paper, Reynolds Metals, U. S. Steel, Philco, Ruberoid, Union Tank Car, Revere Copper & Brass and Worthington Corp.

**Support**

Few stocks show stand-out strength. However, current demand ranges from well above average to strong in the following cases: Boston Edison, Armstrong Cork. Campbell Soup, Deere & Co.,

Garrett Corp., Ideal Cement, Jonathan Logan, Interstate Department Stores, Kellogg Co., Gerber Products, Quaker Oats, Pacific Lighting, Lone Star Gas, Pillsbury, Reynolds Tobacco, Richfield Oil and Shell Oil.

**Utilities**

While utilities offer above-average stability and potentials for worthwhile long-term appreciation in some cases, they can react. Most issues had sizable declines in the 1957 market break, not to mention earlier ones; and considerable reactions from 1958 highs to 1959 lows. The group has dipped recently. Part of the story is simply profit taking after a good advance. Part of it is some second thought on how much lower money rates (as translated into bond yields) can fall as the Treasury shows interest in refunding its debt obligations into longer-term issues and as the Federal Reserve eyes the stepped-up outflow of gold.

**Spiegel, Inc.**

While its line is fairly broad, the biggest business of this mail-order company is in apparel, much of it sold on credit. Expansion and more vigorous promotion have paid off. Up sharply in recent years, profit was $3.82 a share in 1959, versus 1958's $1.67. It lagged moderately in the 1960 first half, with promotion costs boosted further. Recent strong year-to-year sales gains—32.3% in August and 12.5% for the first eight 1960 months—suggest good full-year profits somewhere between $4.15 and $4.30 a share. The stock had a large rise to 1959 high of 47½, then a sharp correction to 29¾. It has met support above the latter level for about four months and now stands at 35¾. The price is reasonable relative to earnings and the $1.50 dividend rate. The issue should in time rise and meanwhile hold up relatively well in a soft market.

**Apparel Versus Textiles**

Output of textile mill products has fallen substantially from best earlier 1960 levels, order backlogs more so. Thus, a further cut in volume can be expected and can pull down earnings importantly. The stocks are well down from their highs, with a buying level not yet indicated. On the other hand, stocks of makers of finished apparel are performing much better than the general market, with some recently at new all-time highs and not much below them currently. This is, of course, a highly competitive business, but some companies have good records in it and a few rate as growth situations. The stocks are not widely known to the general public, although various issues have long been listed on the Big Board. We comment below on several of the more interesting of them.

**Munsingwear**

This company has one of the oldest and best known names in the underwear business. Results were poor to so-so in some earlier periods, but strong progress has been made in recent years. Up for three consecutive years and more than doubled since 1956, earnings reached a record $4.03 a share in 1959, against 1958's $3.41. They could rise to around $4.40-$4.50 this year (not adjusted for a recent 2-for-1 stock split). The dividend rate on the split shares will be $1.00, equal to $2.00 on the pre-split stock, against $1.80 heretofore paid and $1.20 as recently as 1958. The stock recently attained a new all-time high. Now at 21 after the split, yielding nearly 4.8%, it is a sound holding. Probably the advance is over for a while, but the issue should hold up better than the industrial list.

**Bobbie Brooks**

This is a growing company, making sports clothes and other apparel for young women and teen-age girls. Sales rose over 40% to a record $35.7 million in the fiscal year ended April 30. There was a gain of about 47% in profits to $1.25 a share, from the prior year's $0.85. Pointing to a record current year, there were gains of roughly 25% each in sales and net for the quarter ended July 31. Due to capital needs, it is problematical when the modest $0.10 quarterly dividend rate might be raised. Traded on the American Exchange, the stock recently reached a high of 31⅝ and is currently at 28⅝. Based on recent trends, earnings this year could be $1.80-$1.90 a share. A price-earnings ratio around 15.5 for an apparel stock is unusual and might look high, but profit has doubled since 1957. That is so of few stocks in any line of business. How fast will it grow in the future? Nobody can answer that question. But neither can it be answered for various better known growth stocks that are priced at far higher multiples of earnings.

**Jonathan Logan**

Formerly privately owned, this company "went public" sufficiently for Big-Board listing earlier this year. It is a leading maker of dresses for young women. Sales were a record $26.5 million in 1959. Earnings have about doubled since 1955. They were $2.12 on the common last year, against 1958's $1.43; and $0.59 on combined common and Class A shares, up from $0.40. The combined figure should be used, since the Class A stock is convertible into common share for share. Dividends on the common were initiated last April at $0.12½ quarterly. The common was a rather obscure stock when it sold at 8⅝ earlier this year. It has now been "advertised" by moving up through the recent market decline to a current new high of 15. As this might be over 20 times 1960 combined Class A and common earnings, a question about risk is raised. We suggest letting present holders of the common take the chances.

*(Please turn to page 105)*

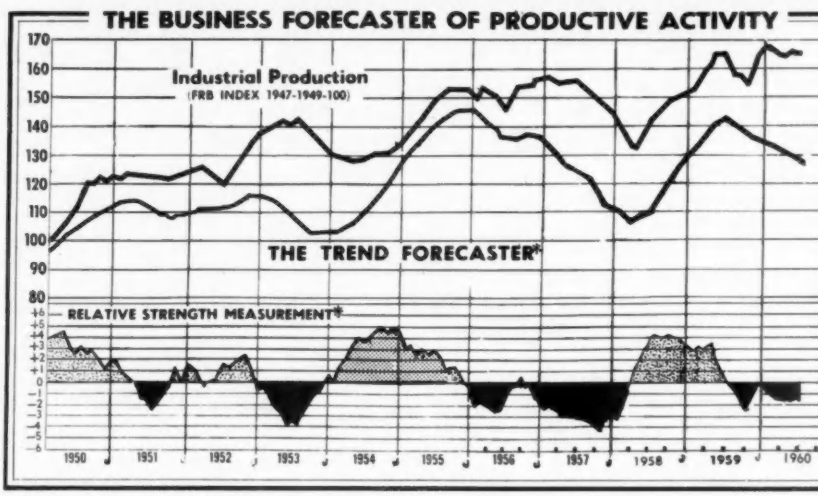
**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1960 | 1959 |
|---|---|---|---|
| Divco-Wayne Corp. | Quar. July 31 | $ .37 | $ .77 |
| Great Northern Railway | 8 mos. Aug. 31 | 1.89 | 2.35 |
| Lerner Stores | 6 mos. July 31 | .47 | .65 |
| Allied Stores | 6 mos. July 31 | .01 | .43 |
| Genesco, Inc. | 9 mos. July 31 | 1.22 | 1.76 |
| Minneapolis-Moline Co. | Quar. July 29 | .63 | 1.27 |
| American Export Lines | 6 mos. June 30 | .81 | 2.05 |
| Lee Rubber & Tire | 9 mos. July 31 | .50 | 1.26 |
| May Dep't. Stores | Quar. July 31 | .26 | .45 |
| Allied Mills | Year June 30 | 3.02 | 3.71 |

# *the* Business

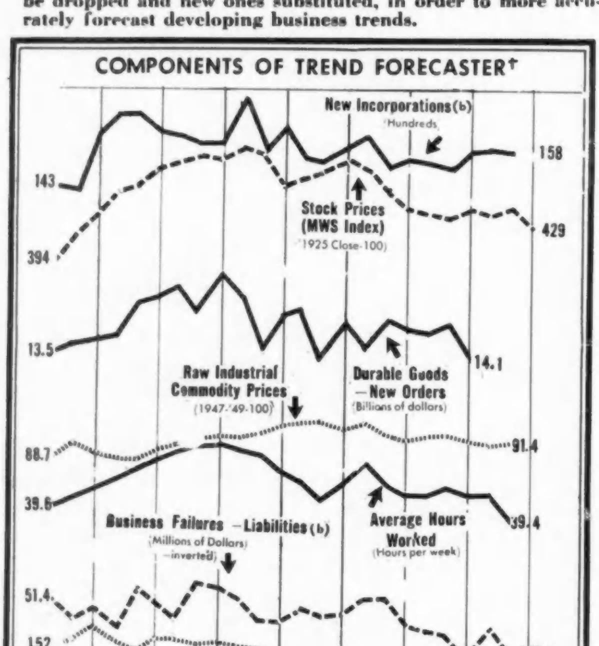
## Business Trend Forecaster

**INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.**




* Latest figures are preliminary.

**W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.




(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

***We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.***

### Current Indications of the Forecaster

The individual indicators making up the Trend Forecaster continued to follow divergent trends in recent weeks, which tended to counterbalance each other. Among the individual measures, stock prices were down sharply in the latest period, liabilities of business failures (inverted), had a big drop, new incorporations dipped slightly, and hours worked remained in a downtrend. At the same time, improvement was noted for new orders in August, reflecting the stimulus of sizeable defense contracts which were placed in that month (the new order figures appeared too late to be included in the chart on this page). Housing starts rebounded from the July low, nonresidential construction contract awards continued to advance moderately and raw industrial materials were slightly above the previous low.

The Relative Strength Measure was at the minus 1.5 level in August where it continued to suggest that business irregularity would continue at least through the end of the year but that no severe drop was in prospect.

# Analyst

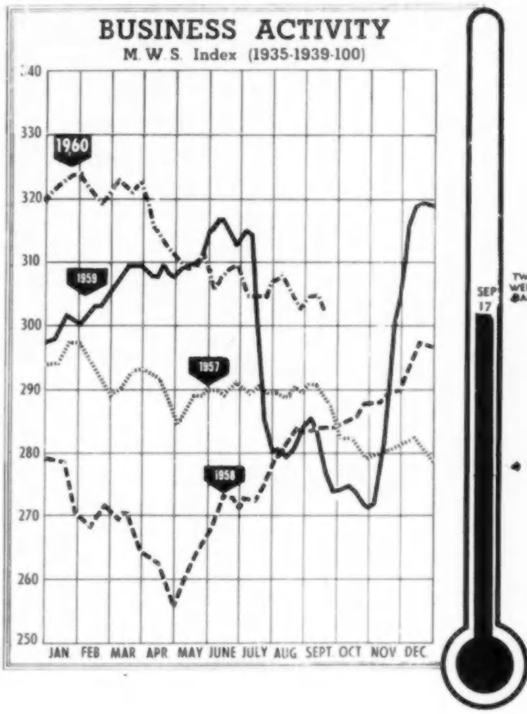
## CONCLUSIONS IN BRIEF

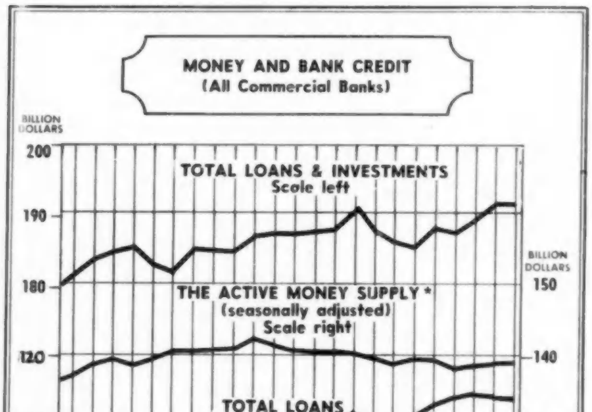
**PRODUCTION — Continues to recede slowly in many lines but autos are a conspicuous exception as producers push early new model introductions. Dealers still have to get rid of big stocks of 1960 models and this will adversely affect output of the 1961 cars later this year.**

**TRADE — Economy-minded consumers are spending cautiously. Sizeable price reductions on 1960 cars have attracted interest but demand for major appliances, apparel and other soft goods continues to lag.**

**MONEY & CREDIT — Both short-term money rates and bond prices have stabilized in recent weeks. Expect resumption of downward trend in long-term rates in the months ahead, in line with expected reduction in corporate outlays for expansion.**

**COMMODITIES — Sensitive raw industrial material prices feel pressure as manufacturers continue to reduce stocks of purchased materials. Price concessions for finished goods continuing and are expected to spread as businessmen fight to attract the cautious consumer.**




THE advent of autumn finds businessmen in a sober mood, induced by accumulating evidence that no worthwhile rebound from the economic slowdown of recent months is in prospect. Meanwhile, the debate regarding the direction of the next important move for business remains unresolved, although, rightly or wrongly, the pessimists are becoming more numerous. It is obvious, of course, that the economy has been doing no better than moving sidewise for some time and, in fact, may have eased a bit in the third quarter. It is reported that Government economists (working with still incomplete data) are estimating that the gross national product fell by $3 to $5 billion during the latest period. This involves a drop of less than 1%, but its significance for statisticians lies in the fact that it would be the first decline for this indicator (except for the steel strike hiatus) since the 1957-1958 downturn.

What concerns us at present, however, is not the moderate dip that we may have already experienced, but the question as to whether this decline is merely the precursor to a more intense contraction. Analysis of the many indicators which normally can be expected to shed light on the outlook reveals an unusually mixed picture at this time, mainly the result of recent Government moves to bolster the economy, which have been pushing some sectors at least temporarily higher, while other areas continue to decline.

Some evidence of the effect of this governmental

*(Please turn to the following page)*

# Essential Statistics

| THE MONTHLY TREND | Unit | Month | Latest Month | Previous Month | Year Ago |
|---|---|---|---|---|---|
| **INDUSTRIAL PRODUCTION* (FRB)** | 1947-'9-100 | Aug. | 165 | 166 | 157 |
| Durable Goods Mfr. | 1947-'9-100 | Aug. | 170 | 172 | 159 |
| Nondurable Goods Mfr. | 1947-'9-100 | Aug. | 162 | 163 | 159 |
| Mining | 1947-'9-100 | Aug. | 130 | 129 | 120 |
| **RETAIL SALES*** | $ Billions | Aug. | 18.2 | 18.2 | 18.1 |
| Durable Goods | $ Billions | Aug. | 5.7 | 5.7 | 6.1 |
| Nondurable Goods | $ Billions | Aug. | 12.5 | 12.5 | 12.0 |
| Dep't Store Sales | 1947-'9-100 | Aug. | 145 | 149 | 144 |
| **MANUFACTURERS'** | | | | | |
| New Orders—Total* | $ Billions | Aug. | 29.8 | 29.2 | 29.0 |
| Durable Goods | $ Billions | Aug. | 14.3 | 13.8 | 14.0 |
| Nondurable Goods | $ Billions | Aug. | 15.5 | 15.4 | 15.0 |
| Shipments* | $ Billions | Aug. | 30.1 | 30.4 | 29.3 |
| Durable Goods | $ Billions | Aug. | 14.4 | 14.7 | 14.0 |
| Nondurable Goods | $ Billions | Aug. | 15.7 | 15.7 | 15.3 |
| **BUSINESS INVENTORIES, END. MO.*** | $ Billions | July | 93.3 | 93.4 | 89.9 |
| Manufacturers' | $ Billions | July | 54.9 | 55.1 | 52.2 |
| Wholesalers' | $ Billions | July | 13.0 | 13.0 | 12.5 |
| Retailers' | $ Billions | July | 25.4 | 25.3 | 25.1 |
| Dept. Store Stocks | 1947-'9-100 | July | 164 | 161 | 155 |
| **CONSTRUCTION TOTAL—t** | $ Billions | Aug. | 54.5 | 55.0 | 54.8 |
| Private | $ Billions | Aug. | 38.4 | 38.6 | 39.1 |
| Residential | $ Billions | Aug. | 21.3 | 21.8 | 22.5 |
| All Other | $ Billions | Aug. | 17.1 | 16.8 | 16.6 |
| Housing Starts*—a | Thousands | Aug. | 1275 | 1184 | 1450 |
| Contract Awards, Residential—b | $ Millions | Aug. | 1433 | 1329 | 1551 |
| All Other—b | $ Millions | Aug. | 1863 | 2268 | 1533 |
| **EMPLOYMENT** | | | | | |
| Total Civilian | Millions | Aug. | 68.3 | 68.7 | 67.2 |
| Non-farm* | Millions | Aug. | 53.3 | 53.4 | 52.0 |
| Government* | Millions | Aug. | 8.5 | 8.4 | 8.1 |
| Trade* | Millions | Aug. | 11.7 | 11.7 | 11.5 |
| Factory* | Millions | Aug. | 12.2 | 12.3 | 12.1 |
| Hours Worked | Hours | Aug. | 39.7 | 39.8 | 40.5 |
| Hourly Earnings | Dollars | Aug. | 2.27 | 2.29 | 2.19 |
| Weekly Earnings | Dollars | Aug. | 90.12 | 91.14 | 88.70 |
| **PERSONAL INCOME*** | $ Billions | Aug. | 408 | 407 | 383 |
| Wages & Salaries | $ Billions | Aug. | 275 | 275 | 259 |
| Proprietors' Incomes | $ Billions | Aug | 60 | 61 | 58 |
| Interest & Dividends | $ Billions | Aug. | 41 | 41 | 37 |
| Transfer Payments | $ Billions | Aug. | 29 | 29 | 27 |
| Farm Income | $ Billions | Aug. | 16 | 16 | 14 |
| **CONSUMER PRICES** | 1947-'9-100 | July | 126.6 | 126.5 | 124.9 |
| Food | 1947-'9-100 | July | 120.6 | 120.3 | 119.4 |
| Clothing | 1947-'9-100 | July | 109.1 | 108.9 | 107.5 |
| Housing | 1947-'9-100 | July | 131.3 | 131.3 | 129.0 |
| **MONEY & CREDIT** | | | | | |
| All Demand Deposits* | $ Billions | Aug. | 110.4 | 110.3 | 112.6 |
| Bank Debits*—g | $ Billions | Aug. | 101.4 | 92.8 | 91.0 |
| Business Loans Outstanding—c | $ Billions | Aug. | 32.0 | 32.0 | 29.9 |
| Instalment Credit Extended* | $ Billions | July | 4.0 | 4.2 | 4.2 |
| Instalment Credit Repaid* | $ Billions | July | 4.0 | 3.9 | 3.6 |
| **FEDERAL GOVERNMENT** | | | | | |
| Budget Receipts | $ Billions | July | 3.1 | 11.1 | 3.2 |
| Budget Expenditures | $ Billions | July | 6.2 | 6.9 | 6.5 |
| Defense Expenditures | $ Billions | July | 3.8 | 4.0 | 4.1 |
| Surplus (Def) cum from 7/1 | $ Billions | July | (3.0) | 1.1 | (3.3) |

## PRESENT POSITION AND OUTLOOK

intervention is already at hand. Housing starts moved up rather briskly in August, apparently benefiting from easier mortgage money and lower down-payment requirements on FHA-guaranteed mortgages. New orders received by manufacturers—the most important single indicator of future business activity—also advanced in August, with a $600 million gain from July, although they remained below shipments.

New orders have been getting at least temporary sustenance in recent weeks from accelerated placement of defense, Federal construction and state highway contracts. Defense contracts are expected to increase by about $2 billion in the fiscal year ending June 30, 1961 and most of this gain is taking place in the July-September period of this year. The Defense Department reports that some $5 billion of major procurement, construction, and research and development contracts were scheduled for placement in the quarter just ended as against only $3.6 billion in the corresponding 1959 period. It is expected that year-to-year gains will diminish in the remainder of the fiscal period and, by the April-June quarter of 1961, contract awards could be running somewhat below their level of a year earlier. This pattern of ordering should be currently providing a stimulus to the industries concerned, although the effect should diminish as the year wears on. Highway construction contracts have also risen sharply in recent months, as the result of Federal permission to states to bunch into the third quarter, contracts which would normally cover the entire last half of 1960. Here too, the effect is to bolster business, although these contract placements could fall rapidly after Election unless some way is found of increasing the funds available for such work.

These Government-dominated areas are thus exerting a sustaining influence on the economy at this time. As for the private sector, which still has a preponderant influence on business, indicators of the trend in this area do not give a very encouraging picture. Liabilities of business failures, for instance, rose sharply in August;

# and Trends

## QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

**In Billions of Dollars—Seasonally Adjusted, at Annual Rates**

| SERIES | 1960 Quarter II | 1959 Quarter I | 1959 Quarter IV | 1959 Quarter II |
|---|---|---|---|---|
| **GROSS NATIONAL PRODUCT** | 505.0 | 501.3 | 486.4 | 487.9 |
| Personal Consumption | 329.0 | 323.3 | 319.6 | 313.6 |
| Private Domestic Invest. | 75.5 | 79.3 | 70.8 | 78.9 |
| Net Exports | 2.0 | 1.2 | — 0.4 | — 2.2 |
| Government Purchases | 98.6 | 97.5 | 96.4 | 97.7 |
| Federal | 51.7 | 51.8 | 52.5 | 53.7 |
| State & Local | 46.9 | 45.7 | 43.9 | 44.0 |
| **PERSONAL INCOME** | 404.2 | 396.2 | 389.0 | 384.5 |
| Tax & Nontax Payments | 49.9 | 49.2 | 46.5 | 46.2 |
| Disposable Income | 354.3 | 347.0 | 342.4 | 338.3 |
| Consumption Expenditures | 328.5 | 323.3 | 319.6 | 313.6 |
| Personal Saving—d | 25.8 | 23.7 | 22.8 | 24.8 |
| **CORPORATE PRE-TAX PROFITS** | | 48.8 | 44.8 | 51.7 |
| Corporate Taxes | | 23.8 | 22.1 | 25.5 |
| Corporate Net Profit | | 25.0 | 22.7 | 26.2 |
| Dividend Payments | 13.9 | 13.9 | 13.8 | 13.2 |
| Retained Earnings | | 11.1 | 8.9 | 12.9 |
| **PLANT & EQUIPMENT OUTLAYS** | 37.0 | 35.2 | 33.6 | 32.5 |

## THE WEEKLY TREND

| | | Week Ending | Latest Week | Previous Week | Year Ago |
|---|---|---|---|---|---|
| MWS Business Activity Index* | 1935-'9-100 | Sept. 24 | 302.3 | 306.3 | 277.0 |
| MWS Index—Per capita* | 1935-'9-100 | Sept. 24 | 218.4 | 221.3 | 202.6 |
| Steel Production % cap. | % of Capacity | Sept. 24 | 53.9 | 53.0 | 12.8 |
| Auto and Truck Production | Thousands | Sept. 24 | 142 | 110 | 119 |
| Paperboard Production | Thousand Tons | Sept. 17 | 321 | 238 | 328 |
| Paperboard New Orders | Thousand Tons | Sept. 17 | 313 | 246 | 314 |
| Electric Power Output* | 1947-'49-100 | Sept. 17 | 266.0 | 274.7 | 254.6 |
| Freight Carloadings | Thousand Cars | Sept. 17 | 599 | 481 | 578 |
| Engineerings Constr. Awards | $ Millions | Sept. 22 | 368 | 423 | 411 |
| Department Store Sales | 1947-'9-100 | Sept. 22 | 150 | 130 | 158 |
| Demand Deposits—c | $ Billions | Sept. 14 | 60.0 | 59.0 | 61.1 |
| Business Failures—s | Number | Sept. 14 | 305 | 276 | 264 |

## PRESENT POSITION AND OUTLOOK

employment on a seasonally adjusted basis was lower; hours worked continued to decline and department store sales have been somewhat under the results of a year ago. Plant and equipment outlays, a laggard indicator, is finally leveling off and looks to turn downward by early 1961. All these areas appear to be heading toward lower levels but business prospects depend on the extent that declining tendencies may be offset by the bolstering influences mentioned earlier.

Although the economy has now been stagnant for some months, it is still too early to make any accurate estimate of the extent of any contraction that may develop. However, the trends of the various business sectors will become more clearly defined in the remaining months of this year and, if a downturn should take hold, a more precise picture of its scope and intensity should emerge before the year is out.

* * *

**THE NATION'S BALANCE OF PAYMENTS** showed a deficit of $799 million in the second quarter of 1960. The main reasons for the deficit included the large amount of our private investment and Federal aid to foreign countries.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

| No. of Issues (1925 Cl.—100) | 1960 High | 1960 Low | 1960 Sept. 16 | 1960 Sept. 23 |
|---|---|---|---|---|
| Composite Average | 482.5 | 419.4 | 430.0 | 419.4L |
| 4 Agricultural Implements | 424.3 | 346.4 | 381.0 | 368.1 |
| 3 Air Cond. ('53 Cl.—100) | 130.1 | 110.9 | 113.5 | 110.9 |
| 9 Aircraft ('27 Cl.—100) | 1116.1 | 861.9 | 1005.6 | 961.4 |
| 7 Airlines ('27 Cl.—100) | 1044.6 | 769.7 | 802.7 | 780.7 |
| 4 Aluminum ('53 Cl.—100) | 521.3 | 354.5 | 380.5 | 354.5L |
| 5 Amusements | 286.7 | 209.3 | 275.2 | 268.5 |
| 5 Automobile Accessories | 531.1 | 417.3 | 422.7 | 417.3L |
| 5 Automobiles | 157.0 | 101.6 | 106.2 | 104.7 |
| 3 Baking ('26 Cl.—100) | 39.1 | 34.9 | 37.2 | 36.8 |
| 4 Business Machines | 1422.6 | 1172.3 | 1264.5 | 1238 2 |
| 6 Chemicals | 809.6 | 673.3 | 697.4 | 673.3L |
| 4 Coal Mining | 36.0 | 27.9 | 28.2 | 27.9L |
| 4 Communications | 234.4 | 209.1 | 220.6 | 213.7 |
| 9 Construction | 169.2 | 148.5 | 150.2 | 148.5L |
| 5 Container | 1064.7 | 866.4 | 887.2 | 866.4L |
| 5 Copper Mining | 347.6 | 285.3 | 301.7 | 285.3L |
| 2 Dairy Products | 188.5 | 146.8 | 185.4 | 182.3 |
| 5 Department Stores | 156.7 | 135.2 | 149.6 | 143.8 |
| 5 Drugs-Eth. ('53 Cl.—100) | 474.7 | 378.0 | 395.6 | 378.0L |
| 5 Elect. Eqp. ('53 Cl.—100) | 384.7 | 314.4 | 332.9 | 314.4L |
| 3 Finance Companies | 755.9 | 648.8 | 742.5 | 735.8 |
| 5 Food Brands | 504.1 | 419.3 | 495.2 | 490.7 |
| 3 Food Stores | 270.8 | 242.4 | 247.6 | 242.4L |

| (Nov. 14, 1936 Cl.—100) | High | Low | Sept. 16 | Sept. 23 |
|---|---|---|---|---|
| High Priced Stocks | 299.9 | 266.2 | 272.7 | 268.2L |
| Low Priced Stocks | 653.8 | 546.7 | 557.0 | 546.7L |
| 5 Gold Mining | 1064.2 | 810.8 | 1013.5 | 1064.2 |
| 4 Investment Trusts | 170.6 | 141.6 | 145.0 | 141.6L |
| 3 Liquor ('27 Cl.—100) | 1534.5 | 1128.3 | 1158.4 | 1128.3 |
| 7 Machinery | 512.8 | 402.9 | 413.4 | 402.9L |
| 3 Mail Order | 446.1 | 368.7 | 373.3 | 368.7L |
| 4 Meat Packing | 286.8 | 223.9 | 229.4 | 226.7 |
| 4 Mtl. Fabr. ('53 Cl.—100) | 208.6 | 136.4 | 144.4 | 136.4L |
| 9 Metals, Miscellaneous | 399.1 | 320.8 | 332.0 | 324.5 |
| 4 Paper | 1237.1 | 841.8 | 918.3 | 841.8 |
| 16 Petroleum | 736.9 | 609.0 | 639.1 | 631.6 |
| 16 Public Utilities | 393.4 | 341.6 | 390.0 | 383.1 |
| 6 Railroad Equipment | 99.8 | 79.8 | 81.8 | 79.8L |
| 18 Railroads | 70.1 | 52.6 | 54.6 | 52.6L |
| 3 Soft Drinks | 850.1 | 690.3 | 842.9 | 828.3 |
| 11 Steel & Iron | 464.9 | 334.7 | 348.7 | 334.7L |
| 4 Sugar | 100.9 | 63.0 | 64.8 | 63.0 |
| 2 Sulphur | 655.9 | 563.1 | 581.7 | 563.1 |
| 11 TV & Electron. ('27—100) | 119.4 | 94.4 | 99.8 | 94.4L |
| 5 Textiles | 223.0 | 185.5 | 189.9 | 185.5 |
| 3 Tires & Rubber | 255.9 | 178.4 | 186.1 | 178.4L |
| 5 Tobacco | 214.4 | 182.5 | 214.4 | 210.7 |
| 3 Variety Stores | 382.1 | 352.9 | 360.3 | 356.6 |
| 14 Unclassif'd ('49 Cl.—100) | 295.1 | 247.7 | 253.0 | 247.7L |

L—New Low for 1960.

# Trend of Commodities

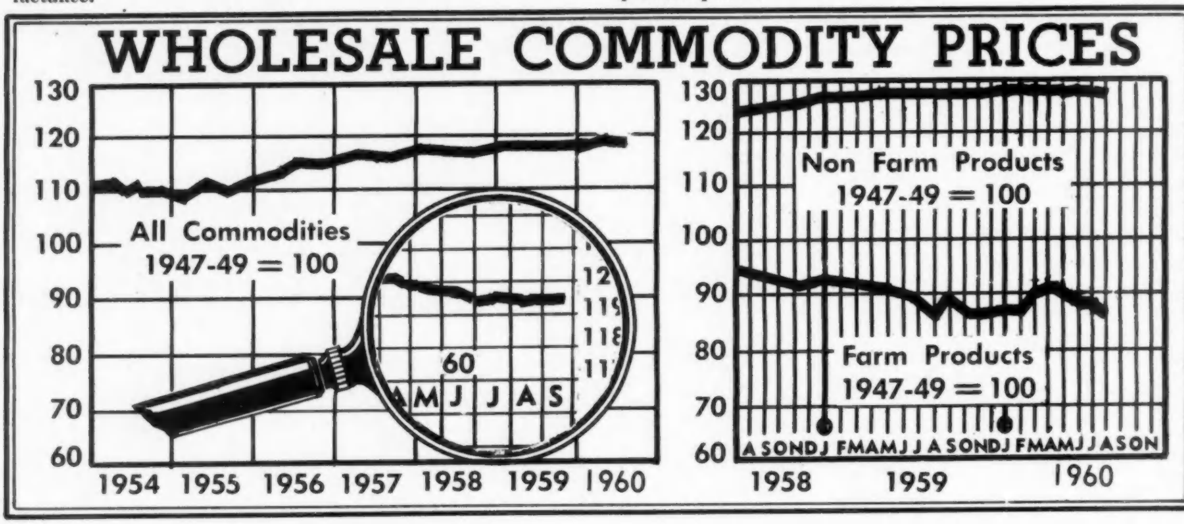
**SPOT MARKETS**—Prices of sensitive raw materials were lower in the two weeks ending September 23 and the BLS daily index of 22 such commodities fell 0.9%, to close at 84.0, its lowest level since March. Both raw foodstuffs and industrial materials declined, with the latter component giving up 1.0%. In this category, copper scrap, cotton, print cloth, lead scrap, steel scrap, tallow and wool tops all had minus signs while only burlap, rubber and tin advanced.

Among the rank and file of commodities, changes were small. Farm products advanced slightly on balance while prices of some finished goods were easier.

The softness in raw materials in recent weeks reflects inventory paring by manufacturers while pressure on finished goods stems from high output and consumer buying reluctance.

**FUTURES MARKETS**—Futures prices showed little trend in the fortnight ending September 23 and changes in most cases were small. The Dow-Jones Commodity Futures Index lost a minimal 0.01 point to close at 143.38.

Nearby wheat futures were slightly higher in the period under review while later options gave ground. Examination of the demand and supply situation for wheat this season indicates that conditions are not as favorable as a year ago. Not counting entries of wheat into the loan from August 31 on, it is estimated the carryover of "free" wheat on June 30 would amount to 157 million bushels, versus 39 million a year ago. With futures prices now about the same as a year earlier, it appears that loan entries from August 31 on would have to be substantially above last year's to justify present prices.



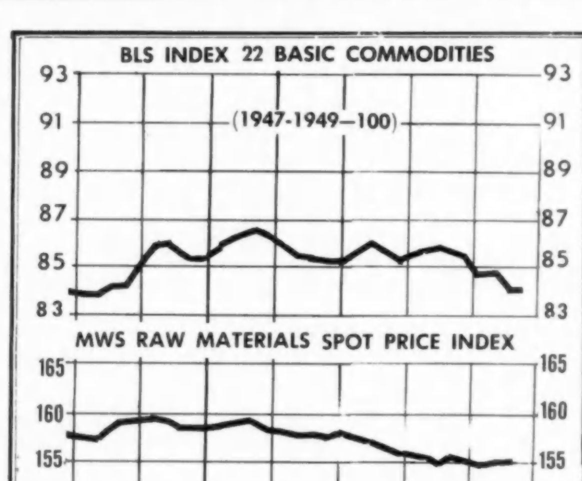

| BLS PRICE INDEXES 1947-1949—100 | Date | Latest Date | 2 Weeks Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| All Commodities | Sept. 20 | 119.4 | 119.4 | 119.7 | 60.2 |
| Farm Products | Sept. 20 | 87.5 | 87.4 | 88.9 | 51.0 |
| Non-Farm Products | Sept. 20 | 128.2 | 128.3 | 128.4 | 67.0 |
| 22 Sensitive Commodities | Sept. 23 | 84.0 | 84.8 | 86.4 | 53.0 |
| 9 Foods | Sept. 23 | 75.8 | 76.4 | 76.1 | 46.5 |
| 13 Raw Ind'l. Materials | Sept. 23 | 90.1 | 91.0 | 94.2 | 58.3 |
| 5 Metals | Sept. 23 | 92.2 | 93.8 | 98.4 | 54.6 |
| 4 Textiles | Sept. 23 | 79.0 | 78.6 | 78.2 | 56.3 |

**MWS SPOT PRICE INDEX**
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

| | 1960 | 1959 | 1953 | 1951 | 1941 |
|---|---|---|---|---|---|
| High of Year | 160.0 | 161.4 | 162.2 | 215.4 | 85.7 |
| Low of Year | 154.5 | 152.1 | 147.9 | 176.4 | 74.3 |
| Close of Year | | 158.3 | 152.1 | 180.8 | 83.5 |

**DOW-JONES FUTURES INDEX**
12 COMMODITIES
AVERAGE 1924-1926—100

| | 1960 | 1959 | 1953 | 1951 | 1941 |
|---|---|---|---|---|---|
| High of Year | 148.7 | 152.7 | 166.8 | 215.4 | 84.6 |
| Low of Year | 142.9 | 144.2 | 153.8 | 174.8 | 55.5 |
| Close of Year | | 147.8 | 166.5 | 189.4 | 84.1 |



## Economic Aid With A Mission For Latin America

*(Continued from page 79)*

cannot do to the same extent as those which depend on agricultural commodities for their foreign exchange. *A massive, world-wide, or America-wide system of price supports will not work any better than the same system has worked in the United States, and the farm price support program here has become one of the most scandalous and indefensible situations facing our government today.*

### How Best to Help Latin America

There are also, however, several changes which the United States, Western Europe and international lending agencies should make in their economic aid policies towards Latin America. Since industrial and mining investments, by and large, can be financed privately abroad, these governmental and international bodies should concentrate on the three areas where private capital is not generally available. The *first* of these areas is technical assistance, which needs no discussion. The *second* is in the economic infrastructure of the Latin American countries. *By this I mean investments in such basic items as power, transportation and communications, without which all further development is impossible.*

I would go so far as to advocate loans and grants for the basic industries such as steel and petroleum as well. In most of the Latin American countries these industries will be run by the government anyway, so we might as well help them to expand at as rapid a rate as possible, consistent with the general economic level of the country involved. Such loans for economic infrastructure can be in hard currencies, but they should be at low rates of interest spread over long periods of time.

The *third* type of aid would be in social overhead—education, health and welfare. Thus the United States Special Fund for Social Development is a heartening indication of the recognition on the part of the United States government that this type of loan

can, in many cases, be more valuable than industrial loans in countries not ready for them, and where in ony case private capital is readily available.

### The Waste in Arms Production

Disarmament should be actively suported in Latin America by the United States. President Alessandri of Chile recently suggested a Latin American disarmament program, and no single act would do so much for the economic development of Latin America. Almost all of these countries spend a quite fantastic proportion of their natural budgets on military preparation. **As poverty-stricken a country as Ecuador spends forty percent of its yearly budget on its armed forces.**

The Rio Treaty of 1947 is sufficient to ensure peace within the Hemisphere, and the Latin American armies would be of no value whatever in a world-wide conflict. **As it is, the armies of Latin America represent a state within a state, and are used, or employ themselves, far more often for repressive internal purposes than for legitimate defense.**

► The United States could also support to a greater extent commodity agreements designed to moderate the fluctuations in raw material prices. Whereas price supports as such are indefensible, there is no doubt that violent fluctuations in price can create havoc with the economy of a country dependent on a single commodity. These fluctuations can be dampened without interfering importantly with the market mechanism.

Aid to Latin America, on a scale greater than anything attempted so far, is inevitable—Latin America is on our doorstep, and any substantial encroachment by international communism is unthinkable. However, this aid must be administered in the proper way and invested in the fields where it will do the most good, and the Latin Americans themselves must shoulder the responsibility of using the money made available to them wisely and well. END



## 25 Companies Scoring Earnings Increases While Others Were Losing Money

*(Continued from page 73)*

similar impact on the market. The odds are against this, making the stock seem questionable at its present level.

**McDonnell Aircraft,** is virtually alone among the major plane makers in reaching new profit peaks recently. In part the reason stems from its concentration on Navy aircraft, a type that is not being phased out as rapidly as land-based planes. But probably the biggest factor is that McDonnell picked out a special slot for itself in the space program, designing specialized equipment requiring large scale production. As a result the plants are humming at McDonnell while much capacity is lying idle elsewhere.

**Beech Aircraft** can trace its success to a special niche also. The small civilian aircraft has been enjoying boom-time demand, and as one of the three major companies in the field, Beech has prospered. Military business still makes up a big part of Beech's business but by the end of this year civilian production will account for well over 50% of revenues. This swing to higher profit margin products is being reflected in earnings.

For the first nine months of fiscal 1960 per share profits climbed to $4.21 from only $3.04 a year ago. For the 12 months ending in June the figures were even more impressive, totalling $5.82 per share against a previous annual high of $4.51.

### Perennial Champions

Significantly, there are several companies that consistently outperform American industry regardless of economic conditions, and without a direct tie-in with consumer products. **International Business Machines** is perhaps the best example. While the rest of the office equipment makers are suffering from huge equipment outlays and feeling some pinch from the decline in capital spending, IBM continues to score new earnings gains. For the last 12 month period the company earned $8.65 compared with a 1959 fiscal record of $7.97. Moreover, the $4.19 per share earned in the first six months of 1960 suggests that full year results may soar to new record levels.

**Texas Instruments** also reached new heights in the 12 months ending in June, but impressive as its record is it is not yet as longstanding as that of IBM. Perhaps this explains its drop in price, while IBM has managed to remain within 10% of its high.

Of greater importance, probably, is the fact that the $2.00 per share earned in the first six months compared with the $1.62 last year represents a slower rate of earnings growth than the company has accomplished in the last few years. Thus, even the impressive $3.97 per share for the last 12 months can be considered something of a disappointment *to justify prices of 30, 40 or 50 times earnings.* When the rate of growth slows, watch out.

**Minnesota Mining & Mfg.** also slowed down in its earnings growth in the first half of this year, but as with IBM the long term record is so outstanding that such hesitation passed virtually unnoticed, especially since new highs were scored. For six months Triple M earned 63¢ per share against 58¢ a year ago. For the 12 months ended June per

share net was $1.30, or 5¢ better than for the best previous fiscal year.

### Continued Strong Performance

The most interesting thing about the companies in the list is that all of them, with perhaps two or three exceptions, will score high earnings this year despite the troubles besetting the economy. Furthermore, most will probably move on to new highs.

Among the vulnerable companies, **Allied Chemical,** which earned $2.66 for the 12 months, is most likely to disappoint shareholders by year-end. Management has already warned of a slowdown in the third quarter and a more clouded fourth. As a major industrial chemical producer, Allied is understandably feeling the pinch from slack steel demand. Moreover, the slower production of steel is affecting Allied's raw materials position since they largely derive from by-products of the steel making process.

**Shell Oil,** with earnings of $2.44 for the 12 months versus $2.43 for fiscal 1959 just barely advanced. Earnings in the first six months were equal exactly to last year's. The rest of this year and 1961 pose many doubts.

### Summary

A presentation of past performance is only the first step in the appraisal of companies. Nevertheless the last twelve months have offered enough excitement to show some divergent results among leading companies. Those on this honor roll deserve attention by thoughtful investors, but only on the basis of their chances for a continuation of recent outstanding earnings. The industry studies which are a regular feature in The Magazine of Wall Street should be an invaluable aid toward this end. END

## Western Oil Companies Gird To Meet Challenge

*(Continued from page 86)*

been the better part of logic to reduce prices before the forthcoming Arab Oil Congress rather than after the meeting is convened. As indicated previously, it is certain that this Congress will reiterate last year's resolution condemning price reductions made without prior consultation with governments. To have waited until the issuance of this resolution would have been to court an even more serious outbreak of anger from the Arab countries than has occurred thus far.

### March of Events Moved Swiftly

As it is, the Middle East's reaction to the early-August price reductions has been sharper than the international oil companies might have expected. While it was recognized that neither the Middle East oil-producing countries nor Venezuela would easily accept the price cuts, it was not expected that the reductions would galvanize the various countries into organizing themselves into any formal group like OPEC.

It has long been assumed among most oil companies that the matters which divide the various Middle East oil countries—whether because of political, economic, or social differences — are greater than those that unite them. Many also assumed that, because the Middle East's reserves are equal to as much as 90 years' supply at the current annual rate of production, the area's oil officials would want to increase the rate at which the reserves are utilized rather than restrict it.

Both of these assumptions no longer seem to be as valid as they did before the formation of OPEC. This new organization not only includes each of the most important oil-producers in the Middle East but it also spans oceans to include Venezuela. The latter possesses crude oil reserves equal to only about 15 years' supply at the current annual rate of output. However, the fact that the Middle Eastern producers are willing to entertain the notion of restricting their output cannot be denied now that OPEC has been formed.

### Problems for International Oil Companies

The international oil companies which produce and export Middle East oil have much at stake in the current controversies that are swirling about them. Each possesses large investments in the area; in total, gross oil investment in the Middle East exceeds $4.0 billion. This figure, moreover, does not include investments in tankers, distribution facilities and research made in other areas but which obviously are required

to support the Middle East producing and refining industry.

The stake which each of the international companies has in the Middle East is illustrated by the amount of crude oil production which they obtain from the area. **British Petroleum,** as Table II indicates, is the most dependent on the area. However, each of the companies derives important quontities of crude oil from the area.

The new demands in the Middle East therefore represent serious challenges for the international oil companies. The most worrisome part of these demands lies in the fact that they place the autonomy of the companies' managerial decisions in jeopardy. Flexibility of the oil companies would be greatly restricted if the area's clamor for price and production stability becomes effective policy.

A new chapter in the affairs of the oil companies operating in the Middle East is now being written and The Arab Oil Congress, about to open, will undoubtedly represent an important place in this new chapter. **END**

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## Calling Attention To Changing Patterns In The Drug Industry

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*(Continued from page 90)*

an above average record of long term growth and earnings stability, and for this reason has been a favorite among investors. A further modest earnings gain is anticipated for 1960.

**Bristol Myers'** sales in 1959 were divided as follows: proprietary preparations including toiletries and cosmetics, 76.4%; ethical drugs, 21%; and miscellaneous, 2.6%. The company has been extremely successful in developing and acquiring proprietary products with broad popular appeal. Examples of such products are Bufferin, Ban and Mum deodorants and the Clairol line of hair coloring products. The latter has been particularly important in the favorable earnings trend this year. In the face of competition from some of the largest factors in the industry, Bristol Myers has had a good record of ethical product development, particularly antibiotics. The company is an important producer of bulk tetracycline and has a joint marketing arrangement with Beechman Ltd. for the development of so-called synthetic penicillins. The first product in this field was Syncillin and this was followed recently by Staphcillin. While the products do not have broad spectrum activity they are expected to meet important specific needs and broaden Bristol's position in the antibiotic field. In relation to historical patterns the stock is liberally priced. However, the long term growth trend is expected to continue.

**Eli Lilly,** considered to be the largest domestic marketer of ethical drugs, possesses an outstanding research organization and has been a leader in the development of many new products in the industry, such as penicillin specialties, erythromycin, special pain relieving agents and, of course, the very important field of tissue culture. It was only because of Lilly's large experience in tissue culture techniques that the Salk vaccine could become available in large volumes to the public so quickly. Unquestionably acceptance of this obligation to the public forced the company to defer many research projects which might have yielded long term profits. The company's somewhat erratic earnings performance may be attributed to three factors: (1) the high sense of public responsibility (recognized in the recent Kefauver hearings), (2) rapidly increasing research expenditures and (3) the unsatisfactory patent picture regarding vaccine products.

**Merck** provides an example of a large company that was able to achieve both growth and a major reorientation of its position in the industry at the same time. Until the early1950's Merck was primarily a producer of bulk pharmaceutical and specialty chemicals and did not market trade name specialties. The acquisition of Sharpe and Dohme provided a basis for such specialties as Diuril, Decadron and the recently introduced Striatran tranquilizer. These and other products have enabled Merck to expand research and marketing organizations greatly during a time when profit margins were declining sharply on bulk pharmaceuticals. The success of the Merck research organization in the last five years and the declining trend in profit margins in bulk pharmaceuticals supplies the strongest testimony possible as to the unfavorable impact on the drug industry if unlimited patent licensing and generic names (with the exclusion of trade names) were required. While earnings in 1960 may not exceed the results in 1959, and, in fact, may be moderately lower, much of this can be attributed to higher research expenditures. For the future it is expected that Merck research will continue to yield important new products. Because very little profit remains in bulk pharmaceuticals the company has little further to lose in this area.

**Charles Pfizer & Co.**—This is another company that was able to make the transition between a chemical producer and a direct marketer of pharmaceuticals, and is well known for its aggressive management policies which, at times, have been the subject of public and private criticism. However, the company has had a remarkably successful record both in the development of antibiotics and in foreign markets. Pfizer's domestic business in the last two years has been adversely affected by competitive product introductions and, thus, growth has come more largely from rapidly expanding foreign activities. Without a major new product development this trend seems likely to continue. The stock offers the opportunities and the risks normally associated with a heavy dependence on foreign markets.

**Schering** has achieved substantial financial success as a result of the introduction of an important new product in 1955, the meti-steroids. Realizing the transient nature of profits from ethical drugs, the company has attempted to use this success to broaden and diversify within the drug industry. The program has been in progress for some three years during which earnings have trended downward. A further decline is anticipated for 1960. In view of the continued unfavorable earnings pattern it seems too early to say how soon this decline will be halted and growth resumed. The company does, however, possess a good research organization which over a period of time is expected to yield significant new products.

**Smith, Kline & French,** another highly successful manufacturer of specialty drugs, derives the

largest portion of its sales from mental health drugs, particularly tranquilizers. Sales of these latter products were adversely affected this year by the introduction of **Hoffman La Roche's** Librium. With the introduction of this and other competitive products Smith Kline's earnings are likely to decline modestly in 1960 and perhaps remain on a plateau for a while until a major new product has been developed. The company has had an outstanding record of growth and the stock has reacted sharply to this new pattern of earnings.

**Upjohn** has enjoyed a record of consistent long term growth which is all the more remarkable since the company produces only ethical products. Its research program has been consistently successful in yielding a substantial number of important products over the years. Sales in 1959 were divided as follows: steroid hormones, 25%; antibiotics, 20%; nutritional products, 18%; veterinary, agricultural and bulk chemicals, 7%; and other pharmaceutical products, 30%. Earnings in 1960 are expected to be modestly ahead of 1959. Because of the consistent pattern of growth in the past, the investor has tended to place a rather high valuation on Upjohn's earnings which is something to think about at this time.

**Mead Johnson's** sales in the first six months of this year increased 47% over the like period in 1959 largely because of the excellent reception accorded the new dietary product, Metrecal. Since the product requires no prescription and lacks patent protection the question as to how much of the business can be expanded or even retained in the face of the large number of competitive products introduced or contemplated naturally arises. The company ranks as one of the largest producers of special nutritional products for infants and children. It also has a small line of pharmaceutical specialties and an aggressive research program to expand in this field. The heavy dependence of the current annual earnings rate (in excess of $5 per share) on Metrecal and the liberal capitalization of this in the market naturally adds a speculative component to what was formerly regarded as a conservative, high quality investment. END

## The Threat In Labor's Multi-Million Dollar Might

*(Continued from page 66)*

as an unfair practice. It is hard to understand why, when Labor may assess its members to guarantee the necessities of life while on the picket line, business may not similarly insure itself against financial losses when operations are closed down by strikes.

### Fringe Benefits That Tax Us All

**What do the individual members get from these annual payments to their unions? Collective bargaining, of course. Beyond this, very little. Some, not all, of the unions do have health, accident, hospitalization and death benefits, but on the whole these could be more advantageously obtained from private agencies. More and more, the unions have given up these types of benefits to membership, relying mainly on the Social Security System and fringe benefits for payments to pensioners. Some important exceptions exist, notably the United Mine Workers, which has provided adequate hospital and retirement privileges for its membership. This program, however, is not financed through dues payments but through a levy on the coal-buying public—a royalty of 40 cents for each ton of coal brought to the surface.**

In the area of fringe benefits, which include health insurance, accident and funeral benefits, and often life insurance (most of it paid for by the employers) the unions have really "gone to town." In 1947, fringe benefits cost industry around $8.8 billion, about evenly divided between holidays, vacations and other payments for time not worked, and contributions to pension and insurance plans. Preliminary estimates indicate the 1960 fringe benefit bill as in excess of $34 billion—only about $10 billion less than the total individual income tax collections for the 1960 fiscal year.

Who pays this enormous fringe benefit bill? The answer is simple—every ordinary citizen—most of them non-union members—who buys the wares and services of unionized industries. A large automobile manufacturer revealed the startling information that of the $3,000 manufacturer's cost of one of his cars, approximately $247 was chargeable to fringe benefits. In the final analysis, the buying public foots the bill, not the labor unions nor their members.

On the basis of reliable estimates the nation's industrial and business employers will pay out around $207 billion in 1960 for actual working time, while fringe benefits will add about $34.2 billion to this figure. This is, roughly, $1.00 in fringe benefits for every $6 in wages.

### Political Impact of Labor's Resources

Of the many millions that go into union treasuries, it would not be unreasonable or unfair to say that perhaps as much as $80 million is diverted to political activity at levels from municipal to national. Today the largest, most expensive lobby in Washington is that of organized labor. And, because of loopholes in the law, their lobbying expenditures reports are far from complete, while campaign donations are cleverly camouflaged as the expenditures of "educational" committees and other "voluntary" organizations.

Regardless of the reader's preference of the candidates for public office, it does devolve upon him to realize that big labor is big money, money enough to make the lobbies of business, industry and other pressure groups puny by comparison. It is the reader's job to seek—through his duly elected representatives—the legislation necessary to bring *all* of labor's camoudaged political activities within the scope of the Corrupt Practices Act. If he fails to do this, he should not complain about the present abuses.

One final, sad example will be mentioned. President Eisenhower, commenting on the $750 million Federal pay raise bill passed by the last Congress, paid his respects to the lobbying strength of the postal employees' unions by condemning the measure as a product of "intensified lobbying" by those groups. For the reader's information, national headquarters of these unions received aggregate per capita payments of $1.7 million in the fiscal year ended last June 30—enough money to hire a full time lobbyist for each and every member of the national legislature. END

## The Hazards And Advantages For U.S. Companies In Foreign Lands

*(Continued from page 70)*

that of the United States—36.4% —during the '50's. *In the words of President William Murphy of* **Campbell Soup Co.,** *"The entire non-Communist world is going middle class."*

**These conditions have drawn American capital. In a negative sense investment funds have also been driven abroad by high wage costs, excessive taxation and other handicaps here at home. Such specific conditions have been the subject of frequent articles in this Magazine.** Most American companies engaging in large-scale operations abroad refrain, for obvious reasons, from disclosing their profit margins on foreign business. Reliable evidence indicates, however, that return on foreign investment is almost invariably higher than on domestic properties, and for roughly a third of all such companies it is more than double the domestic rate.

#### Problems in Stable Areas

These higher returns are justified by the more difficult problems and risks encountered by American industry in almost every foreign country. But these problems naturally vary widely, from the mild to the severe, in different regions. In settled areas, like Western Europe, the problems are, as one would expect, more economic than political. Let's examine just a little further the difficulties that a manager of an American machinery company's subsidiary might experience in Great Britain.

**The British**—and the same would be true of other European nations—have long been recognized experts in certain manufacturing specialties. Yet, because they lack the production breadth to which we are accustomed, suppliers fail to appreciate the necessity for prompt and reliable delivery service. This has compelled the company in question to carry larger inventories than it desires. This, however, is a condition that is likely to be self-correcting. The assurance of a regular market for the suppliers' parts will certainly increase their attention to these orders.

A somewhat related problem is inferior quality of parts and materials, particularly of carbon steel, of which a shock-proof quality is required. Inspection is performed on the suppliers' premises, and on occasion entire truckloads have been rejected. Here, again, however, the suppliers are anxious to improve their standards, and cooperative efforts to accomplish this are being performed.

Inexperienced labor has also been a handicap; this will likewise be rectified by time. In most parts of Great Britain, and particularly in former mining areas, plenty of individual workmen are available, and local governments are naturally eager to cooperate with new industries that will offer them employment.

In Germany and other countries on the Continent, however, the same condition does not prevail; in many areas labor is actually in short supply.

A few years ago prohibitions on remitting profits to the United States and other currency restrictions would have constituted a fourth type of problem for the American subsidiary in Europe. At present restraints of this character have nearly vanished.

#### More Serious Risks in Other Areas

Those economic problems of the character just described, industry can, of course, take in stride. **More threatening are the political risks to be encountered in unsettled or excessively nationalistic parts of the world.**

The daily newspapers are so full of such examples that it is unnecessary to cite current incidents such as the seizures in Cuba or the threat of civil war to copper production in Katanga and neighboring Rhodesia. No absolute protection against such extreme dangers can ever be found. Governments that look stable can deteriorate or, as in the Iranian oil crisis of 1952 and again the Suez Canal takeover in 1956, a succeeding regime may sweep aside the most solemn agreement made by a predecessor.

Other, more subtle problems can be only briefly described. Among these are:

► **Restrictions on currency remissions:** *It is futile to invest abroad if the profits cannot ultimately be transmitted home.* The introduction of foreign investment should normally reduce dollar drain, as the profit on goods locally manufactured can be only a small fraction of the cost of similar items imported. Yet rigid currency restrictions were nearly universal until a few years ago and survive in many Asian and Latin American countries. This is a handicap which American companies can hardly surmount although a few of them, particularly the motion picture exhibitors, have been willing to accept complicated arrangements for payment by barter or in blocked currencies. At the present time **Singer Mfg.,** which has suffered so severely from Japanese competition, is encountering difficulty in securing remittance of earnings from its 50% owned affiliate in Japan.

► **Limited Market areas:** *Small countries, or even large ones with limited purchasing power, often provide markets too narrow to justify the establishment of manufacturing facilities.* This problem is now being solved in Europe by the creation of the two common market areas, which might eventually merge into a single unit. In other parts of the world, however, most countries are still too nationalistic to contemplate a similar program as an early possibility.

► **Generous fringe benefits:** *While lower wage costs are one of the attractions of investment abroad, fringe benefits generally represent a considerably higher proportion of total labor costs abroad than in the States.* This is true even in Europe, and particularly so in Asia and Africa, where employers are frequently obliged to assume a paternalistic responsibility for the entire living pattern of their workmen and families.

► **Excessive featherbedding:** *A related burden consists of laws which extend protection of labor to absurd limits.* In Cuba, before the sugar companies were totally dispossessed, they were obliged to bag their sugar although it would have been much more economical to deliver it to ships in bulk. Similarly, in many Latin American countries an employee once hired can hardly be discharged for any reason.

► **Graft and nepotism:** *In many areas forms of slightly disguised bribery and pressure to do favors*

*for relatives are generally accepted methods of doing business.* They place the incoming American subsidiary in a difficult quandary. On the one hand, it is necessary for the newcomer to accept local customs. On the other hand, participation in shabby practices may give rise to later complaints. In many countries only the foreign firms declare and pay the prescribed taxes fairly; as "guests" they feel obliged to do this, even though local business firms practice uniform evasion.

► **Retroactive changes in taxation:** *Although ex post facto laws are absolutely contrary to an Anglo-Saxon sense of fair play, many countries will yield to the temptation to make a "killing" by the sudden imposition of retroactive taxes.* **Creole Petroleum's** expected 1958 net income was slashed when Venezuela boosted its income tax retroactively; Creole considered it unwise even to protest very vigorously against this action.

### Foreign Tax Advantage More Common

Despite the risk of unexpected tax assessments in certain countries, foreign operation generally offers important tax advantages. This is because the basic income tax rate in most jurisdictions is less than our standard 52%, while other "breaks" are allowed in methods of computation. *To be sure, the foreign tax saving is not a net advantage to the American subsidiary operating abroad, as the foreign tax is merely recognized as a credit against our own tax.*

Still, significant economies do result and others are indicated. "Western Hemisphere corporations" already receive an important tax advantage under our domestic law.

*The basic principle of the Boggs Bill, although this proposed enactment has some undesirable features, is to allow the deferral of U.S. taxes on income until actually repatriated.*

A law very recently passed will allow corporations operating in many countries to retain the benefit of very low tax rates in any one of these, rather than losing it by having to lump all foreign income together. It has even been proposed, beyond this, that American corporations receive domestic credit for tax exemptions offered as a special inducement abroad. If the credit is granted only for taxes actually paid then the inducement rate would be canceled out.

### Safer Types of Investment

Some areas of investment are, by their essential characteristics, more vulnerable than others. Utilities, railroads, oil fields and refineries and extensive plantations are physically conspicuous and possess some monopoly characteristics that make easy targets for nationalization programs. Such industries also usually require very large contingents of unskilled labor, creating a fertile field for agitators.

Industries which, on the contrary, rely on heavy proportions of working capital rather than of fixed capital, and particularly upon research, special skills or patent rights, are usually in a safer position. Examples of this category include the manufacturers of drugs, chemicals, office equipment, instruments and light machinery generally.

### The Joint Venture

This Magazine has carried several articles on the merits of the joint venture, the partnership of American and local capital for the operation of "affiliates" rather than subsidiaries. Briefly, the joint venture may frequently blunt nationalistic attacks by preserving a local character and utilizing valuable on-the-spot experience. Although it is not at all unknown for companies to operate in somewhat hostile jurisdictions under the cover of dummies, a joint venture to be most useful must be a genuine partnership, in respect both to capital *and* management, and not a mere subterfuge. Even in the business-oriented countries of Western Europe most American subsidiaries strive to staff top management as heavily as possible with "locals," and in practice these have usually found that nationality soon becomes unimportant as these officers become "Caterpillar" or "Dresser" men rather than Frenchmen or Danes.

It is disturbing to find within our good neighbor, Canada, some indications of growing resentment over the rapid introduction of American capital. American industry should remember that Canada is, at least technically, a foreign country and consider the advantages of joint development rather than sole proprietorship of new undertakings.

### The Decision Already Made

The question of foreign investment could be debated at great length; with its various ramifications of political and social policy, risks and opportunities, it is actually a fascinating topic. An investor placing undue emphasis upon the risks would probably avoid foreign investment altogether—although in the present era it would be difficult to find many important American manufacturing companies without substantial international representation. On the other hand, a fascination with the almost unlimited opportunities in the foreign field would be extremely rash for the ordinary investor. As is usual, a discriminating assessment of risks and opportunities is essential.

Individual investors can still, of course, be considering the question of foreign investment for themselves, but for most large companies it is no longer a debatable question. The decision has already been made. Existing foreign investments are substantial, and they are being increased rapidly. The individual investor can probably afford to trust the collective decision of America's top management. END

## For Profit And Income

*(Continued from page 93)*

### Hart, Schaffner & Marx

This company is one of the best-known makers of men's suits, overcoats, slacks, etc. It also operates over 65 men's furnishings stores through subsidiaries and is gradually expanding outlets in shopping centers. Sales and earnings set new peaks in the fiscal year ended November 30, 1959, with net at $3.24 a share, against the prior year's $2.09. It could be $3.50 to $3.60 this year. Dividends were raised to a $1.20 rate, from the equivalent of a previous $1.00, following a 2-for-1 stock split effected last April. The stock has had more recognition since it was listed not long ago on the Big Board. Now around 26, it is reasonably priced in the vicinity of 7 times possible current-year earnings, yielding about 4.7%. Nobody can say that it will rise further in this market,

but support is reflected in the fact that it is holding close to its recent all-time high of 27. Good earnings and their modest valuation should mean a continuing performance at least better than average.

**Growth Stock?**

Brunswick Corp. has gone to town on the boom in its bowling alley-pinsetter business, and used part of profits to diversify in other lines in the recreation field, hospital supply and other activities. Now at 70 in a 1960 range of 77-42⅜, the stock has had a major rise. So have earnings. They could approximate $4.60 a share this year, up from 1959's $3.42. On this projection, the stock is priced a little over 15 times earnings, or somewhat more moderately than the average industrial equity. The question is whether the bowling boom is near maturity and whether earnings will either flatten out or decline. As we see it, prospects look good for still higher earnings at least through 1961—and quite possibly for a more extended period. Nobody can see five years ahead for this company—or virtually any other one. The stock has held the bulk of its prior rise in a weak market. It appears to be a buy, for capital gains, on moderate dips.

**Woolworth**

Net of this leader in the variety store field could reach a record $4.30-$4.40 a share this year, not including close to $1.00 a share in undistributed profits of foreign subsidiaries. The long-unchanged $2.50 dividend seems due for a quite substantial liberalization late in 1960 or in the forepart of 1961. Majority stock holdings in the company's British chain have a market value per Woolworth share which exceeds the latter's present market price of 67, off from high of 75. Yield is 3.7% on the present dividend. Whether you stress earnings or yield or asset values or the whole "package," the stock seems a sound, conservative buy. END

See our October 22 Issue for an Appraisal of the Position and Outlook of the GOLD SHARES

## Answers to Inquiries . . .

*(Continued from page 91)*

vious advice to you has proven profitable, we thank you for your complimentary remarks and assure you we will strive to continue earning your approbation.

### Robertshaw-Fulton Controls Co.

*Please furnish recent earnings on Robertshaw-Fulton Controls Co. and also please inform me on the prospects for the company over coming months.*
*N. K., Norfolk, Va.*

Robertshaw-Fulton Controls Co. is a prominent producer of controls for use in commercial, industrial applications and home heating and cooking. Also is active in controls for missiles and jet aircraft as well as stainless-steel valves for missiles and nuclear power applications.

Earnings of Robertshaw-Fulton Controls for the 6 months ended June 30, 1960 equalled, after taxes and preferred dividend requirements, $1.01 per share on 1,714,853 common shares outstaning on June 30th.

Earnings for the comparable period of 1959 equalled $1.85 per share on 1,658,187 common shares then outstanding.

Although many manufacturers in similar businesses have reported substantial "softness" in general business conditions, Robertshaw-Fulton's net sales for the 6 months ended June 30, 1960 were down only approximately 5% to $38,090,372 compared with $40,058,888 for the comparable 1959 period.

Absorption of a variety of short-term moving expenses, associated with the acquisition earlier this year of the Microsen process control instrument division of Manning, Maxwell & Moore and the Acragage business from the International Register Company, together with a substantial increase in research and development activity which cannot be capitalized and must be expensed, have been responsible for holding first half profits down.

One of the company's largest divisions is presently moving into its new $4 million plant just finished in Western Pennsylvania and, while for the moment, expenses associated with the move are a charge against operations, when the move is completed, the division will not only be able to operate much more economically, but it will be able to write substantial additional business. As unusual operating expenses are expected to continue over coming months, net profits will be restrained somewhat but the longer term outlook appears promising.

Current quarterly dividend is 37½ cents per share.

### Austin Nichols & Co.

*"Please advise on Austin Nichols & Co. as to recent earnings and dividends."*
*B. L., Philadelphia, Pa.*

Austin Nichols & Co. is an importer and distributor of wines and liquors and also a producer. The company's domestic products and wholly owned foreign brands account for approximately 50% of total sales. The balance is derived from distributing other imported brands, etc.

For the fiscal year ended April 30, 1960, income was $933,741 before a provision of $465,000 for Federal income taxes, or $468,741 net after taxes. Corresponding figures in the previous year were $1,044.661 before provision of $520,000 for Federal income taxes, or $524,661 net after taxes. The earnings on the common stock, after payment of the regular quarterly dividends on the preference stock, were $1.51 per share in the recent fiscal year, as against $1.83 for the year previous.

For the eighth consecutive time, dollar volume of sales exceeded that of the previous year. The sales increase in this eight year period was 54% whereas the average increase in the industry, according to the company, was only 23%.

Because of increased activity toward the close of the year both accounts receivable and accounts payable were higher than at the close of the previous year. Bank loans, however, were less by $750,000.

The company stated that expenses have a tendency to increase disproportionately to sales and every effort is being made to correct this trend.

The latest earnings, for the 3 months ended July 31, amounted to $0.19 per share compared with $0.21 a year ago.

On August 1, dividends on the

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common stock of 30 cents per share in cash and 5% in common stock, were paid. A cash equivalent of $14.25 per share was paid in lieu of fractional shares arising from the stock dividend. It is not planned to consider further dividends on the common stock until earnings for the fiscal year ending April 30, 1961 have been determined.

During the fiscal year just closed 380 shares of preference stock were converted into common stock in accordance with the terms of the Certificate of Incorporation.

The company must be regarded as relatively small compared to the large factors in the industry. Additional distributing licenses may permit some moderate improvement in sales and earnings. END

## Trend Of Events

*(Continued from page 60)*

nagaika — the whip — on their backs.

**"THERE ARE LIES — DAMN LIES — AND STATISTICS"** . . . as Disraeli so sagely observed at least a century ago.

This is more true today than ever, and makes us wonder what sort of statistical pap is being spoon-fed to Senator Kennedy to cause him to declare that 17 million people in the United States (one out of ten) go to bed hungry every night.

On the face of it if he had thought about it at all, Mr. Kennedy should have known that this was not true, but apparently he merely took what was handed him when he used such an absurd statistic in a public utterance.

It is appalling that a candidate for the Presidency of the United States should have been responsible for making such an untrue and misleading statement—or to have made it at all in public even if he thought it was true—which it is NOT. And it causes one to seriously question Mr. Kennedy's competence. If he had been thinking in commonsense terms alone, he would have known such a statistic just could not be so—that there was some mistake.

Or otherwise—are we to assume that he is the type of man who would not let anything he thought would help his cause stand in the way of his ambition —or,—is it possible that his judgment is so undeveloped that he did not realize the serious implications of his statement.

As a result, we have every right to question whether Mr. Kennedy's judgment is good enough to qualify him for the office of the Presidency—for to make such a statement at this time, when the heads of all the nations of the world have congregated in New York City, was an act of irresponsibility that is hard to understand, even if his remarks were made in the heat of the campaign and only for home consumption. Or,—is he so naive that he did not realize that he was supplying the communists with dangerous ammunition that they would surely use against us in their propaganda?

Beginning with Mr. Kennedy's suggestion that President Eisenhower apologize to Khrushchev, down to this latest blast, in the face of the sharp attack to which we are being subjected by the Soviet Union, we are obliged to assume that Mr. Kennedy is still immature and lacks the judgment necessary for the Presidency at this historic hour in our affairs.

**WHAT'S BACK OF THIS DEAL?** . . . It has been reported by a source of the highest repute that the Colombian news weekly, Semana, bought some time ago for $75,000 by Vision Magazine, the largest and most respected Latin-American weekly news magazine, written and published here in New York, was sold recently to known Communists for 40,000 pesos — equal to $6,000.

The political coloration of the new owners would be clear to anyone reading Semana's coverage of the Bogota Economic Conference.

Why was this influential journal, published in the capital city by one of our few remaining friends in Latin-America, sold at a loss to Communists? Why does the United States, the home of the most advanced public relations techniques in history, fail so miserably abroad in the face of the crude and transparent propaganda of Soviet Russia and its satellites? Is it because they lack the imagination or the drive to bring to the peoples of these countries the true image of the United States, which is a government of the people — for the people — and by the people, and is not a 19th Century capitalist state, a picture which the Communists present to the world, and which thus far we have done nothing to correct. It's about time — isn't it?

**A QUESTION** . . . From Khrushchev's behavior, it seems most unlikely that he really wants Red China to be admitted to the United Nations, for an individual of his temperament would resort to bear hugs, flattery, presents and a "soft" approach in the final analysis to gain his ends.

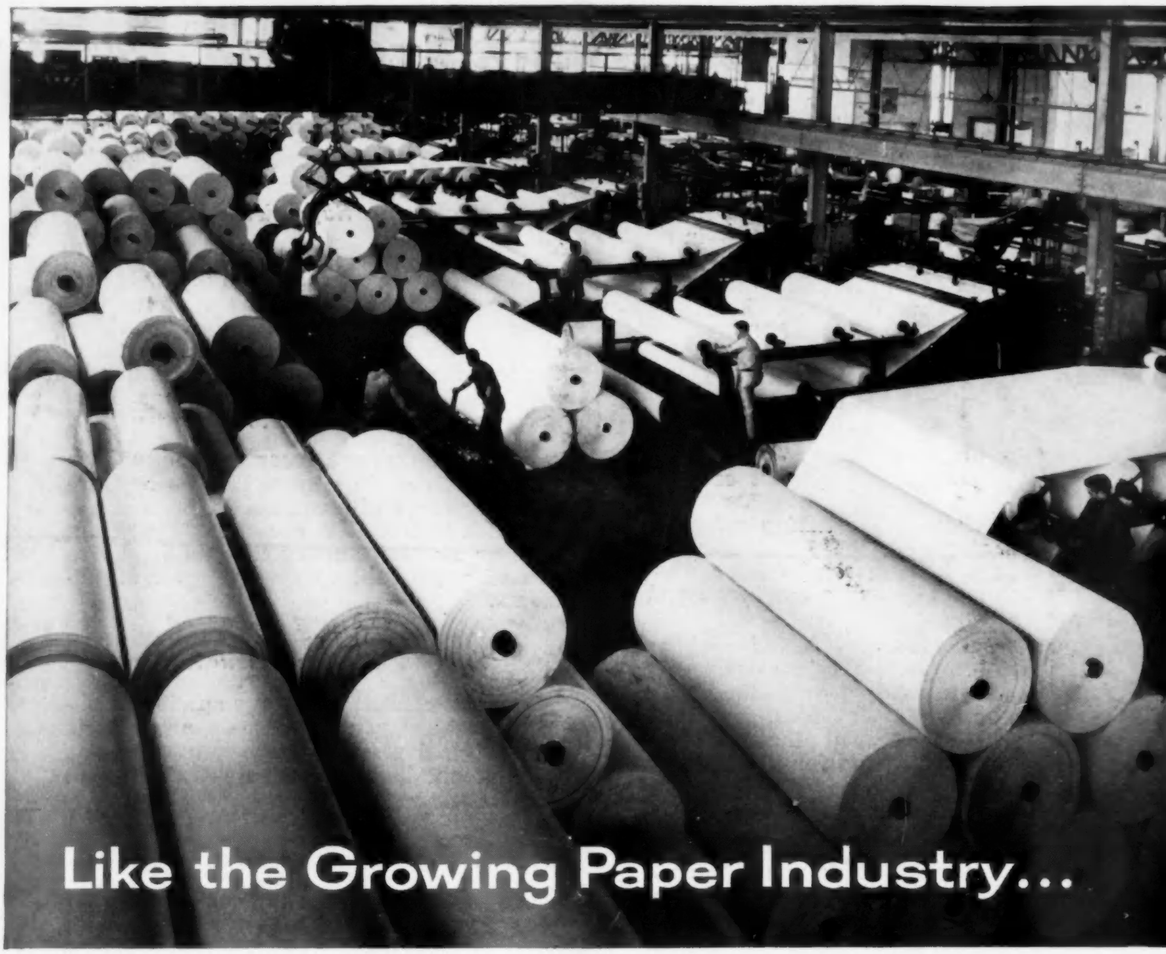
He would not kick the United States and the West in the face as he is continuing to do, preceding his demands with such abuse and intemperance that any man in his right mind would know that his proposals are bound to be rejected under such circumstance.

What then does he really want? Most likely he hopes to whip up the fury of the Chinese Reds against the United States and the West to a boiling point that will erupt into open conflict. If he can accomplish this purpose he is more likely to keep Red China so involved that the Soviet Union would be free to carry on its own plans to stamp its leadership on the rest of the world.

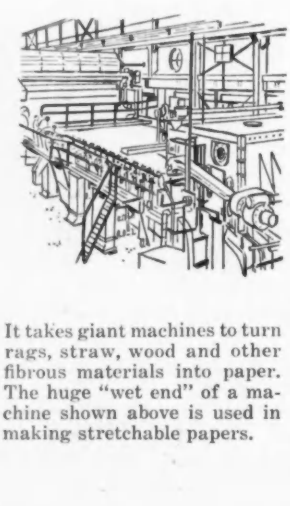
It is my belief that the Red Chinese would welcome a hot war, since Mao Tse-Tung expressed himself as "ready to sacrifice 300 million people and still have enough population left to build an entirely new civilization on the ruins of the West."

You must remember that Red China is unlikely for several decades at least to build an economy that can support its people at a minimum, and Mao Tse-Tung and Chou En-lai, keeping in mind the limitations of their own life span, are thinking in terms of seizing the wealth and assets of the West as a means for speeding up the process.

We the people of the world today are living in crucial times and witnessing history in the making. The outcome will depend on the leadership. END




## there's more to Cities Service than meets the eye!



It takes giant machines to turn rags, straw, wood and other fibrous materials into paper. The huge "wet end" of a machine shown above is used in making stretchable papers.

This year our paper industry will produce more than 68 billion pounds of paper. It will take over 200,000 people to manufacture it.

And more than 400,000 people work in paper and allied-products industries to produce the myriad of paper products we use. Yet few of us realize the huge production task involved in manufacturing the paper we need.

And few motorists "filling her up" at their Cities Service station consider the enormous task of producing gasolene. Cities Service searches five continents for oil . . . maintains a pipeline system that can circle the globe . . . operates towering refineries and modern research laboratories. Cities Service has spent over a billion dollars so far in building and maintaining this vast network of facilities.

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